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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST AND SECOND QUARTERS 1953

Introductory Note

With this bulletin the Bureau commences regular publication of estimates of the Canadian balance of international payments on a quarterly basis.

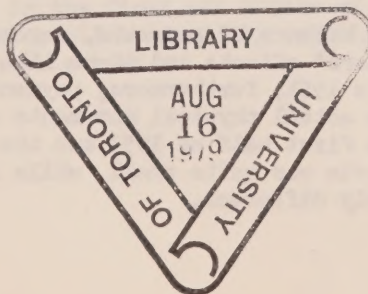
These quarterly estimates represent a useful tool for the analysis of economic trends. Not only do the figures reveal the existence within the annual data of strong underlying seasonal movements, but they also provide a much clearer measure than do the annual statements of effects of major economic and administrative changes, which rarely coincide with a calendar year end. The quarterly estimates thus permit a clearer as well as a more current understanding of the factors at work within the balance of payments than did annual statements heretofore published. This in turn contributes to greater knowledge in a wide field of economic intelligence, ranging from exchange market analysis to effects of domestic and international economic events as they impinge on the balance of international payments and Gross National Expenditure.

The data appearing in this bulletin have been prepared and are presented on a basis consistent with that used in the annual report for 1952 and in the special report on The Canadian Balance of International Payments in the Post-War Years, 1946-1952, which is to be published shortly. In addition to the comparative data included on the following pages, the latter publication contains quarterly current account estimates and bilateral data from 1946.

Estimates of quarterly data of necessity present more difficulties than those encountered in the preparation of annual statements. While much of the source material, such as commodity trade, is available on a current basis, other items in the accounts are collected on a comprehensive basis only at the year end; some of the figures could not, in any event, be obtained on a current basis with the accuracy of the annual data. There are also problems of timing in the measurement of transactions, in short periods, which lose much of their significance when related to the longer period of the annual statements. A variety of techniques, including the use of small but carefully controlled samples and of secondary indicators, have been used in the present estimates where current data of a comprehensive nature were not available. While it is to be expected that from time to time significant revisions of the quarterly data may prove necessary, the quarterly series will, it is believed, provide reasonably accurate and useful information on recent developments in this field.

Prepared in the Balance of Payments Section.

7503-509: 26-8-53.





Developments in the First and Second Quarters of 1953

In the first half of 1953 Canada's current receipts from international transactions were \$2,613 million, a decline of \$78 million from the total in the similar period of 1952. Current payments, however, rose by \$356 million from the first half of 1952 to a level of \$2,978 million. These opposite movements in receipts and payments led to a current deficit of \$365 million in the first half of 1953, indicating a net import of capital, in contrast to the small current surpluses throughout 1952. This current deficit was fairly evenly distributed between the first and second quarters.

Merchandise trade accounted for \$392 million of the deterioration of \$434 million from the first half of 1952.<sup>(1)</sup> If comparison is made with the second half of 1952, merchandise trade again accounts for the bulk of the change. Merchandise exports, as adjusted for balance of payments purposes, fell by \$102 million from the first half of 1952, while imports rose by \$290 million. The decrease in exports reflects primarily the steady fall in the prices of exports over the past year and a half, and a small decrease in the volume of exports. Import prices fell by approximately the same amount as export prices, but import volume rose by about one-fifth over the high levels of the first half of 1952. The terms of trade were slightly better than in the first half of 1952, although there has been some deterioration since the third quarter of 1952. The deterioration in the trade surplus was clearly due to the sharp rise in the volume of imports at a time when export volume declined to a small extent.

The disappearance of the current account surplus was due to a fall of \$313 million in the current account surplus with overseas countries, combined with a rise of \$121 million in the current account deficit with the United States from the first half of 1952 to the first half of 1953. The current balance with the United Kingdom showed the largest change in this period, falling from a surplus of \$241 million to a surplus of \$42 million. The surplus with other sterling area countries fell from \$73 million to \$51 million, while that with other overseas countries fell from \$223 million to \$131 million. In each of these cases merchandise trade contributed most to the deterioration in the current surpluses; the lower trade balances were due to falling exports and rising imports, except in the case of other sterling area countries where exports fell more than imports. Larger service payments for defence activities were also of importance in the fall in the current surplus with overseas countries. The increase in the deficit with the United States was due to a more rapid rise in imports than in exports. Non-merchandise transactions with the United States were almost unchanged on balance.

The distribution of exports changed markedly. As compared to the first half of 1952 exports to the United States rose moderately, but exports to overseas countries fell sharply. The most striking increase in exports to the United States was in non-ferrous metal exports, particularly copper and aluminum. The fall in exports to the United Kingdom and other overseas markets affected mainly exports of wood products and metals. In part the decrease to overseas countries reflects a diversion of exports to the United States, as in the case of aluminum. Greater availability of some metals in non-dollar markets and restrictions on dollar purchases which were extended in the first half of 1952 were also factors in lowering the level of exports to some overseas countries. Exports of grains to overseas countries have continued at high levels.

The sharp increase in import volume which began in the fourth quarter of 1952 is due to the heavy demands in Canada connected with rising levels of consumption and investment. These demands increased the value of imports from the United States and from most overseas countries. The increases in imports of textiles, automobiles and parts, machinery and equipment from the United States are clearly related to the high and rising levels of consumption and investment in Canada. A notable rise occurred in imports from the United Kingdom, particularly in automobiles, aircraft and engines, textiles, and electrical apparatus. Defence items did not contribute greatly to the increase in total imports from the first half of 1952.

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(1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics. In the first half of 1953 and the similar period of 1952 the effect of these various adjustments on exports was quite small, while imports were decreased in both periods by amounts which were not widely different.



Changes in the non-merchandise items contributed only \$42 million to the change in the current account from the first half of 1952; all of this change was in transactions with overseas countries. A rise in the value of gold production available for export was more than offset by the deterioration on freight and shipping account which resulted from lower earnings on overseas exports and higher payments on imports. The major factor in the greater deficit on non-merchandise items was the increased payments on government account associated with Canada's commitments under the Colombo Plan and the North Atlantic Treaty, and the costs involved in the Korean hostilities. There were comparatively slight increases in both receipts and payments on international travel account with the payments balance for the half year remaining unchanged. There was also little change in the payments balance on income account largely due to offsetting increases in both receipts and payments of dividends.

With the emergence of current account deficits the value of the Canadian dollar declined slowly over the first half of 1953. This was in contrast to the rising trend evident in the same period of 1952 which led to the record high values established in the later months. The average value over the first half of 1953 was, however, slightly higher than the average for the corresponding period of 1952. This relative stability of the exchange rate in the face of a change to a current account deficit reflects in part the continued large inflows of long-term capital as in 1952. The large short-term outflows of 1952, however, have largely disappeared in the first half of 1953.

The dominant long-term capital movement continued to be the inflow for direct investment in foreign controlled enterprises in Canada, tentatively estimated at \$90 million and \$75 million in the first and second quarters of 1953 respectively. Most of this investment came from the United States, and about three-quarters was related to expansion of the mining and petroleum industries if associated transportation facilities are included. The remainder of the inflow was related to merchandising and a wide variety of manufacturing enterprises.

The stability of direct investment inflows was not, however, characteristic of portfolio security transactions which resulted in an outflow of \$76 million in the second quarter following an inflow of \$97 million in the first quarter of the year. Over the first quarter security trading led on balance to a small inflow which changed to an outflow in the second quarter when there were heavy liquidations of holdings of government bonds by non-residents. At the same time there was a decrease in sales of new issues to non-residents, which had been heavy in the first quarter, while retirements rose reflecting the repurchase by the Government of Canada of \$75 million of the 3% External Loan of 1948. Principal repayments of \$24 million on loans and credits extended by Canada were somewhat higher in the six months than in the corresponding period of 1952.

Turning to more short-run movements, over the six months there were very considerable increases totalling \$68 million in Canadian dollar holdings of foreigners. A substantial part of this increase is known to have been committed for special transactions in the third quarter. Further inflows of capital of \$107 million resulted from the reduction of official holdings of gold and foreign exchange, but the major part of this decrease was related to the special government security repurchase mentioned above. All other capital movements, which include changes in international open account commercial indebtedness and in private and chartered bank holdings of exchange, although outwards on balance in the first quarter were inwards in the second.

Some inflow of capital was to have been expected as a result of the increase in accounts payable normally accompanying a growth in the value of imports, but other important factors also affect this category of capital movement. Private short-term capital movements which played a prominent role in the balancing of Canada's international accounts in 1952 did not have the same significance in 1953.

The net capital inflow which took place in the first six months of 1953 added to Canada's international debtor position, through the creation of additional liabilities and to a lesser extent through the reduction of Canadian assets abroad.



QUARTERLY ESTIMATES OF THE BALANCE OF PAYMENTS

Note: Data for 1953 are preliminary and

(Millions of dollars)

	1950				1951			
	I	II	III	IV	I	II	III	IV
<b>A CURRENT RECEIPTS</b>								
1 Merchandise exports (adjusted)	663	788	796	892	815	952	1,044	1,139
3 Gold production available for export	41	42	39	41	37	43	35	35
4 Travel expenditures	23	51	152	49	23	51	157	43
5 Interest and dividends	13	25	16	37	16	25	19	55
6 Freight and shipping	63	74	69	78	68	81	96	106
7 Inheritances and immigrants' funds	11	14	18	14	14	19	22	22
11 All other current receipts	49	65	52	65	65	57	65	62
12 TOTAL CURRENT RECEIPTS	863	1,059	1,142	1,176	1,038	1,228	1,438	1,462
<b>B CURRENT PAYMENTS</b>								
1 Merchandise imports (adjusted)	630	795	796	908	946	1,193	1,082	876
4 Travel expenditures	36	58	79	53	54	74	96	56
5 Interest and dividends	94	120	77	184	100	96	91	163
6 Freight and shipping	48	80	91	82	59	93	102	100
7 Inheritances and emigrants' funds	13	15	15	18	15	17	19	19
9 Official contributions	1	3	-	1	1	5	-	3
11 All other current payments	86	93	94	104	99	102	113	109
12 TOTAL CURRENT PAYMENTS	908	1,164	1,152	1,350	1,274	1,580	1,503	1,326
Balance on Merchandise Trade	+ 33	- 7	-	- 16	- 131	- 241	- 38	+ 263
Balance on Other Transactions, excluding B 9	- 77	- 95	- 10	- 157	- 104	- 106	- 27	- 124
Official Contributions	- 1	- 3	-	- 1	- 1	- 5	-	- 3
<b>C CURRENT ACCOUNT BALANCE</b>	- 45	- 105	- 10	- 174	- 236	- 352	- 65	+ 136
<b>D CAPITAL ACCOUNT</b>								
Direct Investment								
1 Direct investment in Canada	+ 35	+ 53	+ 89	+ 45	+ 46	+ 75	+ 53	+ 135
2 Direct investment abroad	+ 5	+ 17	+ 16	- 2	- 3	- 4	- 4	- 9
Canadian Securities								
3 Trade in outstanding issues	+ 8	+ 11	+ 295	+ 15	+ 63	+ 1	+ 11	- 37
4 New issues	+ 17	+ 101	+ 88	+ 4	+ 26	+ 155	+ 76	+ 154
5 Retirements	- 47	- 97	- 120	- 20	- 25	- 37	- 67	- 55
Foreign Securities								
6 Trade in outstanding issues	+ 11	+ 12	+ 37	+ 10	+ 1	+ 5	+ 5	+ 4
7 New issues	- 1	-	-	- 1	-	- 1	- 1	- 1
8 Retirements	+ 2	+ 1	+ 4	+ 1	+ 1	-	+ 1	+ 1
Loans by Government of Canada								
9 Drawings	- 30	- 20	-	-	-	-	-	-
10 Repayment of post-war loans	-	+ 5	+ 3	+ 15	-	+ 7	-	+ 27
11 Repayment of war loans	+ 16	+ 9	+ 10	+ 16	+ 5	+ 14	+ 8	+ 7
14 Change in Canadian dollar holdings of foreigners	+ 67	+ 66	+ 131	- 31	- 20	- 13	- 77	- 82
15 Refunding loan proceeds set aside for retirements	+ 18	-	-	-	-	-	-	-
16 Change in official holdings of gold and foreign exchange (increase, minus)	- 85	- 72	- 696	+ 131	+ 110	- 45	+ 64	- 185
17 Capital movements, n.o.p.	+ 29	+ 19	+ 153	- 9	+ 32	+ 195	- 4	- 95
<b>E NET CAPITAL MOVEMENT</b>	+ 45	+ 105	+ 10	+ 174	+ 236	+ 352	+ 65	- 136

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

D A minus sign indicates an outflow of capital from Canada.

12 Exclusive of undistributed profits.

14 Excludes holdings of IMF and IERD (D 17)

15 Both this item and the related retirement (D5) converted at exchange rate in effect at time of refunding, viz. \$1.00 U.S. = \$1.00 Cdn.

16 At September 30, 1950 there were abnormally large amounts of exchange in transit to the Exchange Fund Account which were not included in official holdings of gold and U.S. dollars at that date but are included in item D 16 for the purpose of this table. Excluded are changes in accounts established by special arrangement with the U.K. under which sterling was acquired for codfish sold in European markets and was available for the repurchase of certain funded obligations (entries under D 5 and D 17).



BETWEEN CANADA AND OTHER COUNTRIES

data for 1952 are subject to revision

(Millions of dollars)

1952				1953		Annual Totals			Four Quarters ending 30 June 53	
I	II	III	IV	I	II	1950	1951	1952		
1,009	1,123	1,049	1,155	916	1,114	3,139	3,950	4,296	4,234	A
41	35	37	37	48	37	163	150	150	159	1
24	53	156	43	26	54	275	274	276	279	3
17	31	22	76	27	33	91	115	146	158	4
81	93	89	97	71	93	284	351	360	350	5
17	25	22	17	15	31	57	77	81	85	6
66	76	75	96	71	77	231	249	313	319	7
1,255	1,436	1,450	1,521	1,174	1,439	4,240	5,166	5,662	5,584	11
889	984	936	1,037	1,001	1,162	3,129	4,097	3,846	4,136	12
62	96	108	70	67	94	226	280	336	339	B
82	88	95	148	83	98	475	450	413	424	1
61	94	101	102	65	102	301	354	358	370	4
21	24	24	25	23	25	61	70	94	97	5
11	-	-	5	9	12	5	9	16	26	6
100	110	117	121	110	127	377	423	448	475	7
1,226	1,396	1,381	1,508	1,358	1,620	4,574	5,683	5,511	5,867	9
+ 120	+ 139	+ 113	+ 78	- 85	- 48	+ 10	- 147	+ 450	+ 58	11
- 80	- 99	- 44	- 60	- 90	- 121	- 339	- 361	- 283	- 315	
- 11	-	-	- 5	- 9	- 12	- 5	- 9	- 16	- 26	
+ 29	+ 40	+ 69	+ 13	- 184	- 181	- 334	- 517	+ 151	- 283	C
+ 68	+ 75	+ 103	+ 86	+ 90	+ 75	+ 222	+ 309	+ 332	+ 354	D
- 6	- 15	- 15	- 28	x	x	+ 36	- 20	- 64	x	1
-	- 19	- 51	- 25	+ 40	- 36	+ 329	+ 38	- 95	- 102	2
+ 89 <sup>o</sup>	+ 161	+ 23	+ 46	+ 111	+ 50	+ 210	+ 411	+ 319	+ 230	3
- 12	- 41	- 7	- 29	- 25	- 92	- 284	- 184	- 89	- 153	4
+ 6	+ 2	+ 2	-	+ 1	+ 3	+ 70	+ 15	+ 10	+ 6	5
- 19	- 1	-	-	- 1	- 1	- 2 <sup>o</sup>	- 3	- 20	- 2	6
-	-	-	-	+ 1	-	+ 8	+ 3	-	+ 1	7
-	-	-	-	-	-	- 50	-	-	-	8
+ 2	+ 6	+ 8	+ 24	+ 2	+ 11	+ 23	+ 34	+ 33	+ 37	9
- 5	+ 3	+ 2	- 66	+ 46	+ 22	+ 51	+ 34	+ 23	+ 26	10
-	-	-	-	-	-	+ 233	- 192	- 66	+ 4	11
+ 24	- 32	- 25	- 4	+ 16	+ 91	- 722	- 56	- 37	+ 78	14
- 176	- 188	- 109	- 24	- 71	+ 51	+ 192	+ 128	- 497	- 196	15
- 29	- 40	- 69	- 13	+ 184	+ 181	+ 334	+ 517	- 151	+ 283	16
										17
										E

NOTES:

17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

E For the period of fixed exchange rates ending September 30, 1950, the net capital movement is often shown exclusive of changes in official holdings of gold and foreign exchange (D 16) as this item played the residual role at that time in the settlement of all Canada's international transactions; for example in the third quarter of 1950 the current balance of -10 and net capital inflow of +706 equals the change in official holdings of gold and foreign exchange of 696.

x Included with D 17.





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FOREIGN TRADE FILE 3



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QUARTERLY ESTIMATES OF  
 THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
 THIRD QUARTER, 1953

In the first nine months of 1953 Canada's current receipts from international transactions were \$4,108 million, a decline of 1% from the same period of 1952. Current payments rose by 11% to \$4,494 million. These opposite movements led to a deficit of \$386 million from transactions in goods and services in the nine month period of 1953, contrasting with a surplus of \$138 million in the same period one year earlier. A small decrease in merchandise exports and a large increase in imports accounted for most of the change in the current account balance; the non-merchandise items contributed only \$41 million to the deterioration in the balance.

Almost all of the current deficit to the end of September, 1953 was incurred in the first and second quarters of the year. The deficit of \$181 million in the second quarter (and \$184 million in the first) changed to a small deficit of \$21 million in the third quarter of 1953. This improvement was mainly due to the decline in import volume from the second quarter level, which was partly a seasonal change, and to the usual third quarter rise in net receipts on travel account. The third quarter deficit of \$21 million compares with a surplus of \$69 million in the same quarter of 1952, reflecting the very high level of imports in 1953.

The immediate factors in the deficits can be indicated by comparing the quarterly totals with the levels one year earlier. In both the first and third quarters of 1953 payments for goods and services exceeded the corresponding 1952 levels by about 10%, while in the second quarter the increase was 16%. Current receipts during the first quarter of 1953 were lower than in the corresponding 1952 period. In the second quarter they were about level with the same quarter of 1952, and only in the third quarter did current receipts exceed (by about 3%) the corresponding 1952 total.

Merchandise trade deficit in nine months

Merchandise exports in the nine months of 1953 were \$3,106 million, down by \$75 million from the 1952 period; almost all of this change was in the first quarter of 1953 compared to the same period of 1952. The major decreases were in exports of wood pulp, zinc, automobiles, and farm machinery and implements. The fall in prices of wood pulp and zinc had important effects on the value of exports of these products, while declining farm incomes in the United States have affected exports of farm machinery. Exports of wheat in the first nine months of 1952 were almost unchanged from the 1952 period in value, although less in volume, while newsprint exports were up by 5% in value.

There were striking changes in the direction of exports in the 1953 period. While exports to the United States rose by 8% over the first nine months of 1952, exports to the United Kingdom and to other overseas countries fell by 12% and 16% respectively. The fall in exports to the United Kingdom and other overseas countries mainly reflects lower sales of wood products and metals, while in the case of overseas countries other than the United Kingdom sales of barley and automobiles were also down sharply.

Merchandise imports in the first nine months of 1953 rose to \$3,217 million, an increase of \$408 million over the same period of 1952. Almost half of the change was in the second quarter of 1953 compared to the same quarter of 1952, and the rest evenly divided between the first and third

quarters. There were widespread increases in the iron and products group in 1953, particularly in machinery of various types and automobiles and parts. A variety of textile imports were higher, and substantial increases also occurred in imports of refrigerators and electrical apparatus. Imports from the United States in the first nine months of 1953 rose by 15%, while imports from the United Kingdom rose sharply by 38%. In the case of the United States the increases were spread throughout all groups except the agricultural products group, with imports of iron products showing the largest increase in value. The increase in imports from the United Kingdom was more heavily concentrated in textiles, automobiles, aircraft engines, and other metal products.

The value of both exports and imports fell from the second to the third quarter of 1953, the latter showing the larger fall. These changes reflect changes in volume rather than price; import volume fell by 8% and export volume by less than 2% from the second quarter levels. (1) If allowance is made for seasonal factors, it appears that the striking increase in the volume of imports which has occurred for several quarters was arrested, at least temporarily, in the third quarter of 1953. The actual volume and value of imports in the third quarter of 1953, however, were well over the levels attained one year earlier. Export volume, after allowance for seasonal movements, had shown some weakening particularly in the first quarter of 1953; it recovered strongly in the second quarter however, and remained at a high level in the third. Prices of exports and imports were virtually unchanged from the second to the third quarter. Export prices have continued to fall slowly in 1953. Import prices have risen slowly since the third quarter of 1952, reflecting in part the reduction in the premium of the Canadian dollar up to mid-1953.

#### Larger deficit on non-merchandise transactions in nine months

The deficit on non-merchandise transactions, which has been typical of recent years, widened to \$275 million in the nine months of 1953, as compared with \$234 million in the same months of 1952. The usually large payments balance on dividend account declined somewhat as dividend payments levelled off for the nine months while receipts from Canadian subsidiaries abroad continued to rise. Travel receipts and payments both rose by about the same amount and the payments balance on this account was not significantly changed, in contrast to the rising deficit of the previous year. The important changes in the invisible items occurred in the freight and shipping account and in the miscellaneous items. Receipts from freight and shipping transactions have been lower in 1952 while payments have risen with the larger volume of imports. The largest change in the invisibles was an increase from \$121 million to \$160 million in net miscellaneous payments, (including official contributions) due to sharply increased payments. A significant part of the increase arose from settlement of costs incurred in connection with the Korean hostilities, while payments under the Colombo Plan and in connection with the North Atlantic Treaty were also higher. Business service payments also rose, reflecting an increased volume of imports and high levels of activity and investment in Canada.

#### Summary of Current Account Transactions with the United States,

#### the United Kingdom, and with Other Countries.

(Million of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1952	1953	1952	1953	1952	1953	1952	1953
<u>Third Quarter</u>								
Exports (adjusted)	1,049	1,076	562	611	169	194	318	271
Imports (adjusted)	936	1,054	662	747	95	114	179	193
Balance on trade	+ 113	+ 22	- 100	- 136	+ 74	+ 80	+ 139	+ 78
Other transactions (net)	- 44	- 43	- 44	- 13	- 8	- 26	+ 8	- 4
Current account balance	+ 69	- 21	- 144	- 149	+ 66	+ 54	+ 147	+ 74
<u>January to September</u>								
Exports (adjusted)	3,181	3,106	1,691	1,832	573	503	917	771
Imports (adjusted)	2,809	3,217	2,053	2,354	252	348	504	515
Balance on trade	+ 372	- 111	- 362	- 522	+ 321	+ 155	+ 413	+ 256
Other transactions (net)	- 234	- 275	- 250	- 216	- 14	- 59	+ 30	-
Current account balance	+ 138	- 386	- 612	- 738	+ 307	+ 96	+ 443	+ 256

(1) Export and import values are adjusted for balance of payments purposes, while price and volume indexes refer to unadjusted data.



The deficit on non-merchandise items contracted sharply from \$133 million in the second quarter of 1953 to \$43 million in the third. This is typical behaviour for these items as a whole, due mainly to the seasonal increase in travel receipts in the third quarter. This summer the level of expenditures in Canada by United States travellers has risen appreciably above that of the previous summer. An increase of some 10% contrasts with the relative stability in the total of these expenditures between 1948 and 1952. A greater number of visitors and larger average expenditures both contributed to the increase. Nevertheless, the balance of receipts on travel account in the third quarter was about the same as last year as Canadian expenditures on travel outside of Canada continued to rise.

#### Larger deficit with United States, smaller surplus with overseas countries

The deterioration of the current account in the first nine months of 1953 was mainly due to transactions with overseas countries. An enlarged deficit with the United States also appeared, resulting from a faster rise in imports than in exports. Offsetting this in part was the smaller deficit with the United States from non-merchandise transactions, due mainly to smaller net payments on travel and dividend accounts and larger receipts from United States Government spending in Canada. Transactions with the United Kingdom and other overseas countries show in both cases a fall in exports and a rise in imports. When combined with larger payments of a service nature for defence, the changes in trade with overseas countries in the first nine months of 1953 led to a sharp decrease in the usual surplus with these countries. These comparisons with the situation one year earlier also apply broadly to the third quarter, with the significant exception that exports to the United Kingdom in the third quarter of 1953 exceeded those of the third quarter of 1952.

#### Exchange rate relatively stable

Despite the substantial reduction of the current account deficit from \$181 million in the second quarter of 1953 to \$21 million in the third quarter, Canada's international accounts were balanced with only a modest rise in the exchange value of the Canadian dollar. This was reflected in a decline in the average value of the United States dollar, in Canada, from 99.08 cents in the second quarter to 98.82 cents in the third. A moderate upward trend in the value of the Canadian dollar over the third quarter contrasted with the slow decline evident over the first half of the year. But the range was relatively narrow, the United States dollar having moved between 97.78 cents and 99.44 cents in the third quarter, and between 96.75 cents and 99.78 cents in the earlier part of the year. Analysis of the capital account indicates that there continued to be capital inflows increasing Canadian long-term liabilities and decreasing government long-term assets abroad, while movements of capital affecting short-term assets and liabilities continued to be outwards on balance.

#### Capital inflows for direct investment continue at high level

The net movement of capital into Canada for direct investment in foreign-controlled enterprises is tentatively estimated to have been \$90 million in the third quarter, a rate slightly higher than during the first half of the year. Although over the nine months of the year about 90% of this direct investment inflow has been from the United States, in the third quarter there appears to have been a marked increase in the inflow from the United Kingdom and the share of United States capital in the total was closer to 80%. Resource development continued to be the major field for new foreign investment; in the nine months of the year about 45% of the inflows were related to the expansion of the petroleum industry and 30% to other mining enterprises (associated transportation facilities are included in each case). While estimates of movements of capital in connection with Canadian direct investments abroad are not yet available for 1953, there appear on balance to have been outflows to a variety of Canadian enterprises in various parts of the world.

#### Portfolio security transactions fluctuate widely

Despite a turnover of nearly \$200 million in the third quarter portfolio security transactions were nearly in balance; this followed an outflow of \$80 million in the preceding quarter when transactions were dominated by repatriation of \$75 million of government debt. The net inflow of capital arising from security transactions in the first nine months of the year was \$23 million, including \$2 million from transactions in foreign securities. Proceeds of new Canadian issues sold to non-residents amounting to \$179 million were offset by retirements of \$128 million and an outflow of \$30 million from trading in outstanding Canadian issues.

The sale of new issues to non-residents was heavily concentrated in the first quarter of the year when there was a substantial volume of financing in the New York market by provinces and municipalities. In later quarters the volume of Canadian new issues in both domestic and foreign markets dropped sharply. Long-term interest rates in the United States rose rapidly in the second quarter, leading to an abrupt narrowing of the spread between interest rates in the two countries. The capital inflows arising from new issues in the middle six months of the year included only two bond

issues payable in United States funds, accounting for about one-quarter of the total inflows. Roughly a similar amount was received from the sale of new Canadian dollar bond issues to non-residents while the balance of the proceeds came from the participation of non-residents in new issues of stock by Canadian companies. Towards the end of the third quarter United States bond prices rose, increasing the spread between interest rates in the two countries, and Canadian borrowers again began to look with interest to the New York market for fourth quarter financing.

Repatriation of Canadian securities owned abroad was dominated during the nine months by two special factors. The repurchase for Government account of \$75 million of Canada 3/63 (external) loan has already been mentioned. The second quarter also saw a sudden but limited liquidation of non-resident holdings of government direct and guaranteed bonds, reflected in net repurchases of \$44 million. The timing of this movement clearly relates it to the major readjustments taking place in the United States bond and mortgage markets at that time. Net repurchases of outstanding Canadian securities of \$30 million in the nine months of the year reflect repurchases of \$57 million of bonds and debentures, and sales of \$27 million of stocks. United Kingdom and other overseas residents were net buyers in the amount of \$13 million and \$16 million respectively, while United States residents were net sellers of Canadian securities in the amount of \$59 million.

#### United Kingdom repayment on 1942 loan

The largest individual capital transaction during the third quarter was the payment of approximately \$39 million made by the United Kingdom on the Canadian loan of 1942. This loan originated from the funding of \$700 million advanced to the Government of the United Kingdom prior to the wartime arrangements for Mutual Aid. At that time it was agreed that the loan would bear no interest until after the war, a provision which was subsequently extended to the end of 1953. The loan was to be reduced by crediting against it dollars accruing to the United Kingdom from sales to non-residents of Canadian securities (payable in Canadian dollars) held by residents of the United Kingdom together with proceeds of redemption of any Canadian securities. Subsequently it was agreed that certain new direct investments in Canada and the financing of an order for Canadian aircraft by United Kingdom residents could be offset against the amounts accruing for payment. By the end of June of this year, as a result of these repayment provisions, the amount outstanding on the loan had been reduced to about \$189 million.

Under the new arrangements the United Kingdom has been released from the provisions for repayment heretofore in effect. The payment made in August reduced the amount outstanding to \$150 million and this will be repaid in full in twenty equal quarterly instalments commencing next year and running through 1958. (The amount outstanding on the Canadian postwar loan of 1946 to the United Kingdom is currently about \$1,157 million; repayment of this loan extending over fifty years commenced in 1951). The authorities in the United Kingdom have now withdrawn the special restrictions imposed on the switching abroad of Canadian securities owned by United Kingdom residents. The overall effect of the new arrangements is to eliminate the generally self-balancing nature of the loan repayments, the security transactions, and the direct investment in Canada coming under the understanding described in the paragraph above. Henceforth as a general rule the switching in Canada or elsewhere abroad of United Kingdom holdings of Canadian securities will not directly affect that country's position, but any further reductions of these holdings will augment its exchange resources, while repayments on the loan and transfers for direct investment in Canada will represent a charge upon them.

#### Other capital movements outwards

Canadian dollar holdings of foreigners were reduced by \$65 million in the quarter. This comparatively large outflow of capital reflects in part the use in the third quarter of balances accumulated in anticipation of specific transactions; over the nine months of the year Canadian dollar holdings of foreigners are estimated to have increased by \$3 million. In the third quarter there was also an outflow of \$35 million to increase Canada's official holdings of gold and foreign exchange. This contrasted with an inflow of \$107 million in the first half of the year, of which a substantial part was



directly related to the repurchase from abroad of \$75 million of government debt.

"Capital movements n.o.p." resulted on balance in a small outflow of capital in the third quarter in contrast to the inflow of \$50 million in the previous period, but the heterogeneous character of the transactions covered makes this balance of limited significance. In this category movements of capital to finance Canadian-controlled enterprises abroad merge with such diverse groups of transactions as loans to Canadian companies by the United Kingdom and United States Governments, foreign financing of acceptance and loan companies, and the use of Canadian resources by the International Bank for Reconstruction and Development. And included also, of course, are transactions normally playing a more passive role, such as changes in international open account commercial indebtedness, and in private and chartered bank holdings of foreign exchange.

### Summary of Capital Movements, 1953

(Millions of dollars)

	<u>Third Quarter</u>		<u>January to September</u>	
	1952	1953	1952	1953
Direct investment in Canada	+ 103	+ 90	+ 246	+ 260
Canadian securities				
Trade in outstanding issues	- 51	- 4	- 70	- 30
New issues	+ 23	+ 15	+ 273	+ 179
Retirements	- 7	- 10	- 60	- 128
Official loan repayments	+ 8	+ 39	+ 25	+ 63
Canadian dollar holdings of foreigners	+ 2	- 65	-	+ 3
Official holdings of gold and foreign exchange	- 25	- 35	- 33	+ 72
Capital movements n.o.p.	- 122	- 9	- 519	- 33
Net capital movement financing current account balance	- 69	+ 21	- 138	+ 386

Prepared in the Balance of Payments Section.



Note: Data for 1953 are preliminary and

(Millions of dollars)

		1 9 5 1			
		I	II	III	IV
A	CURRENT RECEIPTS				
1	Merchandise exports (adjusted) .....	815	952	1,044	1,139
3	Gold production available for export .....	37	43	35	35
4	Travel expenditures .....	23	51	157	43
5	Interest and dividends .....	16	25	19	55
6	Freight and shipping .....	68	81	96	106
7	Inheritances and immigrants' funds .....	14	19	22	22
11	All other current receipts .....	65	57	65	62
12	TOTAL CURRENT RECEIPTS .....	1,038	1,228	1,438	1,462
B	CURRENT PAYMENTS				
1	Merchandise imports (adjusted) .....	946	1,193	1,082	876
4	Travel expenditures .....	54	74	96	56
5	Interest and dividends .....	100	96	91	163
6	Freight and shipping .....	59	93	102	100
7	Inheritances and emigrants' funds .....	15	17	19	19
9	Official contributions .....	1	5	-	3
11	All other current payments .....	99	102	113	109
12	TOTAL CURRENT PAYMENTS .....	1,274	1,580	1,503	1,326
	Balance on Merchandise Trade .....	- 131	- 241	- 38	+ 263
	Balance on Other Transactions, excluding B 9 .....	- 104	- 106	- 27	- 124
	Official Contributions .....	- 1	- 5	-	- 3
C	CURRENT ACCOUNT BALANCE .....	- 236	- 352	- 65	+ 136
D	CAPITAL ACCOUNT				
	Direct Investment				
1	Direct investment in Canada .....	+ 46	+ 75	+ 53	+ 135
2	Direct investment abroad .....	- 3	- 4	- 4	- 9
	Canadian Securities				
3	Trade in outstanding issues .....	+ 63	+ 1	+ 11	- 37
4	New issues .....	+ 26	+ 155	+ 76	+ 154
5	Retirements .....	- 25	- 37	- 67	- 55
	Foreign Securities				
6	Trade in outstanding issues .....	+ 1	+ 5	+ 5	+ 4
7	New issues .....	-	- 1	- 1	- 1
8	Retirements .....	+ 1	-	+ 1	+ 1
	Loans by Government of Canada				
10	Repayment of post-war loans .....	-	+ 7	-	+ 27
11	Repayment of war loans .....	+ 5	+ 14	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners .....	- 20	- 13	- 77	- 82
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 110	- 45	+ 64	- 185
17	Capital movements, n.o.p. ....	+ 32	+ 195	- 4	- 95
E	NET CAPITAL MOVEMENT .....	+ 236	+ 352	+ 65	- 136

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items  
B 1) as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts.  
Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal re-  
B 11) mittances, miscellaneous income, insurance transactions, and business services.

D A minus sign indicates an outflow of capital from Canada.

1,2 Exclusive of undistributed profits.

## BALANCE OF INTERNATIONAL PAYMENTS

data for 1952 are subject to revision.

(Millions of dollars)

1952				1953			Annual	Totals	Four	
I	II	III	IV	I	II	III	1951	1952	Quarters Ending 30 Sept. 53	
1,009	1,123	1,049	1,155	916	1,114	1,076	3,950	4,336	4,261	A
41	35	37	37	48	37	31	150	150	153	1
24	53	156	43	26	54	171	274	276	294	3
17	31	22	76	27	33	21	115	146	157	4
81	93	89	97	71	93	87	351	360	348	5
17	25	22	17	15	31	24	77	81	87	6
66	76	75	96	71	77	85	249	313	329	7
1,255	1,436	1,450	1,521	1,174	1,439	1,495	5,166	5,662	5,629	11
889	984	936	1,037	1,001	1,162	1,054	4,097	3,846	4,254	B
62	96	108	70	67	94	122	280	336	353	1
82	88	95	148	83	98	78	450	413	407	4
61	94	101	102	65	102	105	354	358	374	5
21	24	24	25	23	25	22	70	94	95	6
11	-	-	5	9	12	3	9	16	29	7
100	110	117	121	110	127	132	423	448	490	9
226	1,396	1,381	1,508	1,358	1,620	1,516	5,683	5,511	6,002	11
120	+ 139	+ 113	+ 118	- 85	- 48	+ 22	- 147	+ 490	+ 7	
80	- 99	- 44	- 100	- 90	- 121	- 40	- 361	- 323	- 351	
11	-	-	- 5	- 9	- 12	- 3	- 9	- 16	- 29	
29	+ 40	+ 69	+ 13	- 184	- 181	- 21	- 517	+ 151	- 373	C
68	+ 75	+ 103	+ 86	+ 90	+ 80	+ 90	+ 309	+ 332	+ 346	D
6	- 15	- 15	- 28	x	x	x	- 20	- 64	x	1
-	- 19	- 51	- 25	+ 10	- 36	- 4	+ 38	- 95	- 55	2
89	+ 161	+ 23	+ 46	+ 116	+ 48	+ 15	+ 411	+ 319	+ 225	3
12	- 41	- 7	- 29	- 25	- 93	- 10	- 184	- 89	- 157	4
6	+ 2	+ 2	-	+ 1	+ 3	+ 1	+ 15	+ 10	+ 5	5
19	- 1	-	-	- 1	- 2	- 1	- 3	- 20	- 4	6
-	-	-	-	+ 1	-	-	+ 3	-	+ 1	7
-	+ 9	-	+ 24	+ 2	+ 11	-	+ 34	+ 33	+ 37	8
2	+ 6	+ 8	+ 7	+ 4	+ 7	+ 39	+ 34	+ 23	+ 57	10
5	+ 3	+ 2	- 66	+ 46	+ 22	- 65	- 192	- 66	- 63	11
24	- 32	- 25	- 4	+ 16	+ 91	- 35	- 56	- 37	+ 68	14
176	- 188	- 109	- 24	- 76	+ 50	- 9	+ 128	- 497	- 87	16
29	- 40	- 69	- 13	+ 184	+ 181	+ 21	+ 517	- 151	+ 373	17
										E

## NOTES:

- 4 Excludes holdings of IMF and IBRD (D 17)
- 6 Excluded are changes in accounts established by special arrangement with the U.K. under which sterling was acquired for codfish sold in European markets and was available for the repurchase of certain funded obligations (entries under D 5 and D 17).
- 7 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.  
Included with D 17.





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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FOURTH QUARTER, 1953 AND  
PRELIMINARY ESTIMATES, CALENDAR YEAR 1953

Canada's current transactions in all goods and services with other countries resulted in a deficit of \$467 million for the twelve months of 1953 compared with a surplus of \$157 million in 1952. Most of this change occurred in the alteration in the merchandise trade account from an export balance to an import balance. This made up \$546 million of the net change in the year of \$624 million from a current account surplus to a deficit. About one-third of the change in the commodity account was due to a drop in the value of exports while the remaining two-thirds resulted from the rise in Canadian imports. The deficit from all other current transactions rose by \$78 million. This latter change was mainly due to larger military expenditures by Canada abroad, a deficit on freight account and some increase in official contributions to other countries. Not included above are goods and services of \$246 million provided by the Canadian Government in 1953 as Mutual Aid to North Atlantic Treaty countries.

The re-appearance of a current account deficit was mainly due to the decrease in the surplus with overseas countries from \$1,015 million to \$481 million. About half of this decline was with the sterling area. There was also an increase in the deficit with the United States from \$858 million to \$948 million.

Although there was a deficit in every quarter of 1953 most of this developed during the first half of the year, there being deficits in the first two quarters of \$189 million and \$190 million respectively. In the third quarter the deficit was \$16 million and in the fourth quarter there was a deficit of \$72 million. The striking increase in the volume of imports, which was mainly responsible for the appearance of the deficit in 1953, was reversed in the fourth quarter when import volume and value fell below the corresponding 1952 levels.

Transactions on current account have led to deficits in three of the last four years. The principal source of the deficits has been the payments made abroad by Canada on interest and dividend account and for services, in the absence of an export surplus on merchandise trade. But the leading changes from year to year have been the fluctuations in the merchandise trade balance, with the disappearance of an export balance in 1951 and 1953, and only a negligible balance in 1950. The current account surplus in 1952 was due to a large export balance associated with a sharp fall in import prices for much of that year coupled with a large increase in exports of grains. The emergence of deficits has been closely related to the rapid increase in investment since 1949 and rising consumer expenditures. During this period there have also been substantial contributions of Mutual Aid by Canada to NATO and other defence expenditures both in Canada and abroad which have had the effect of increasing the deficit in the balance of payments. In relation to total current transactions the deficits have been small; that of 1953 was only 4 per cent of total current transactions and about 8 per cent of total current receipts.

Over the year as a whole the inflow of capital for direct investment and the net proceeds of new issues and retirements abroad of Canadian securities were together more than sufficient to finance Canada's net purchases of goods and services. The particularly persistent inflows of funds for direct investment in foreign-controlled enterprises in Canada, associated particularly with resource development, have risen in each post-war year and have been a major contributor to the

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relative strength of the Canadian dollar. Other types of capital movements varied both in nature and direction over the year, but on balance were outwards although on a greatly reduced scale in comparison with 1952.

### Opposite movements in trade lead to deficit

The most important single change in the current account was the appearance of a merchandise trade deficit of \$55 million in sharp contrast to the surplus of \$491 million in 1952. (1) While merchandise exports fell by \$185 million, imports rose by \$361 million. The rise in imports was due wholly to a rise of 9 per cent in the volume of imports, with average prices almost unchanged. The decline in exports reflects a fall of less than 2 per cent in volume and about 3 per cent in price. The slight deterioration in the terms of trade in 1953 contributed to the appearance of a deficit on merchandise trade, but by far the most important factor was the increase in import volume.

In the first quarter of 1953 exports were more than seasonally low but in the next two quarters recovered in value and volume to approximately the 1952 levels. In the fourth quarter both exports and imports failed to show their usual seasonal increase. The decrease in exports was spread over a number of important products, including a decline in wheat exports which occurred mainly in the fourth quarter of 1953. Sales of wood pulp and some other wood products were lower but exports of newsprint paper rose to a new peak. There were some substantial decreases in exports of manufactured goods including a decrease in exports of automobiles from the exceptional level of the previous year, and sharply reduced exports of farm implements to the United States. While exports of lead and zinc were lower, aluminum and nickel exports increased. A number of overseas markets reduced their purchases of Canadian grains, metals, wood products and other exports. Increased exports to the United States in some cases offset much of the decline in exports to overseas countries.

The spectacular rise in the value and volume of imports in 1953 was not evenly distributed through the year. Some retardation in the growth of imports appeared in the third quarter, while the level of imports in the fourth quarter of 1953 was below that of both the preceding quarter and the corresponding quarter of 1952. The increases for the year were widespread, reflecting the higher levels of activity in most sectors of the economy in a period during most of which inventories were generally rising. The substantial increase in volume in 1953 follows an even larger rate of increase in the two previous years with the result that the volume of imports in 1953 was more than one-third larger than in 1950. Substantial increases occurred in imports of producers' investment goods such as machinery and electrical apparatus. Both durable consumer goods such as automobiles and refrigerators, and non-durables such as textiles, showed large increases. Imports of a variety of industrial materials were also higher. Larger imports from the United States and the United Kingdom accounted for the bulk of the increase in imports. An increase of one-third in purchases from the United Kingdom was particularly notable.

### Larger deficit on non-merchandise transactions

The deficit on non-merchandise transactions widened in 1953 by \$78 million to \$412 million. This is the largest deficit for the so-called invisible items in the post-war period, and is a continuation of the substantial deficits appearing for these items since 1950. The enlarged deficit for these items in 1953 was due solely to transactions with overseas countries; transactions in non-merchandise items with the United States led to a reduced deficit in 1953. The payments balance for non-merchandise items deteriorated most in the first half of the year, when compared with the period one year earlier. This was the period when the trade deficit deteriorated most also.

The largest change in 1953 occurred in the freight and shipping account. This change from a small surplus to a deficit is partly related to the changes in the volume and direction of trade. There was a decline in the receipts of Canadian shipping companies from carrying exports overseas and from traffic between foreign ports, and some reduction in receipts of inland freight. At the same time an increase in the volume of imports raised Canadian payments for the transportation of imports, although there was a decline in the cost of some transportation services.

The other important change leading to the increased deficit on invisibles was in the miscellaneous account. Government transactions of a service nature have dominated changes in this account in recent years. While United States Government expenditures in Canada for defence purposes

(1) Export and import values are adjusted for balance of payments purposes, while price and volume indexes refer to unadjusted trade data. Adjustments are made to Customs imports and exports for non-commercial items, defence payments, and duplication with other parts of the current account. In 1952 and 1953 these adjustments reduced exports by about \$20 million in each year and imports by about \$180 million in each year. Thus changes in exports, imports and the trade balance will be about the same in both adjusted and unadjusted trade data, although the balances themselves will differ in each year.

increased in 1953, the payments side of this account rose more rapidly. A large part of the increased payments arose from the settlement of costs incurred in Korea and in connection with Canada's commitments under the North Atlantic Treaty. Expenditures under the Colombo Plan were also larger. Both receipts and payments for business services rose in 1953. Higher levels of economic activity, resource development and foreign investment have raised payments in particular to very high levels in recent years.

A reduction in the usual large deficit on income account offset in part the increased deficits referred to above. Net payments of interest and dividends, which reached a peak of \$384 million in 1950, have been steadily reduced to a net payment of \$271 million in 1952 and \$251 million in 1953. Payments of interest and dividends at \$410 million were relatively unchanged from 1952 to 1953, an increase in interest payments offsetting most of the decline in dividend payments. Part of the decrease in dividend payments reflects cuts in dividend rates as earnings declined, while in other cases lower dividend payments were due to the retention of earnings for expansion programs. Receipts of dividends from Canadian direct investments abroad were substantially higher again in 1953. Dividend receipts and payments cannot be easily related to such factors as the flow of funds for investment and to current earnings. Many of the current foreign investments in Canada, for example, are not likely to pay dividends during early stages of operation. The relation between current earnings and dividend payments is affected by decisions to retain earnings. Part of the larger dividend payments made a few years ago reflected the payment of past earnings, while part of the larger receipts in the last few years are related to the same factor.

In contrast to previous years there was an appreciable rise of 10 per cent in the expenditures of travellers from other countries in Canada. This was sufficient to reduce the deficit on travel account with the United States from \$37 million to \$25 million as Canadian expenditures in the United States rose by only 4 per cent. Most of the gain in United States expenditures in Canada was due to an increase in traffic, particularly in the inward movement of summer visitors by automobile. The increase in expenditures of Canadians travelling in the United States was more moderate than the rise of 19 per cent in the previous year and seems partly attributable to increased purchases of merchandise by travellers. But there was a substantial rise of 23 per cent in the expenditures of Canadians on travel overseas and only a small rise in the expenditures of overseas travellers in Canada. Consequently the deficit on travel account with overseas countries rose from \$29 million to \$38 million with the result that only a slight reduction occurred in the deficit in the travel account with all countries.

Gold production available for export was lower in 1953 than in 1952, reflecting mainly the effects of the strike in the last part of the year.

#### International Transactions with Principal Countries

and Areas, 1952 and 1953

(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1952	1953	1952	1953	1952	1953	1952	1953
Exports (adjusted)	4,337	4,152	2,346	2,458	727	656	1,264	1,038
Imports (adjusted)	3,846	4,207	2,813	3,045	350	462	683	700
Balance on trade	+ 491	- 55	- 467	- 587	+ 377	+ 194	+ 581	+ 338
Other transactions (net)	- 334	- 412	- 391	- 361	+ 10	- 53	+ 47	+ 2
Current account balance	+ 157	- 467	- 858	- 948	+ 387	+ 141	+ 628	+ 340



### Surplus with overseas countries sharply reduced throughout 1953

The deterioration of the current account in 1953 was due largely to transactions with the United Kingdom and other overseas countries. The fall in the current surpluses with overseas countries, while occurring throughout 1953, was particularly large in the first half of the year, when compared to the period one year earlier. Exports to the United Kingdom were lower in 1953 while imports rose sharply. The small surplus on non-merchandise items in 1952 changed to a deficit in 1953, reflecting primarily the settlement of defence costs. The resulting current surplus of \$141 million with the United Kingdom was well under those of any post-war year except the virtual balance in 1950. The current surplus with other sterling area countries was also decreased to \$85 million, largely due to a greater fall in exports than imports. A substantial fall in exports to other overseas countries was the main factor in reducing the surplus with these countries as a whole. The disappearance of the surplus on services with this group of countries was also an important factor which was due to the coincidence of a variety of factors affecting most items. The rise in the deficit with the United States was wholly due to commodity transactions. While exports to the United States rose in 1953, merchandise imports rose more rapidly. The deficit on non-merchandise transactions with the United States was reduced, due to improvement on travel and income account and larger receipts from United States Government expenditures in Canada.

### Merchandise trade surplus in fourth quarter

A surplus of \$50 million on commodity trade was recorded in the fourth quarter of 1953. The usually large net payments for non-merchandise items in that quarter, however, led to a current account deficit of \$72 million in contrast to a small surplus of \$13 million one year earlier. The value and volume of exports and imports in the fourth quarter of 1953 were below the corresponding 1952 levels. On a seasonally adjusted basis the volume of exports in the fourth quarter of 1953 was at the lowest quarterly level of the past two years while the volume of imports was less than in any quarter since the first half of 1952. Much of the fourth quarter decline in exports was due to lower sales of grains, while the drop in imports coincides with a period when most business inventories were declining in contrast to the general increases earlier in the year. The deficit on non-merchandise items increased over that of the fourth quarter of 1952, as receipts fell more than payments. Payments were lower as compared to the fourth quarter of 1952 because of lower dividend and freight payments. Receipts fell as gold available for export reflected the strike in the mines and freight receipts fell with the decline in export volume.

In the first quarter of 1953 merchandise exports were well below the corresponding quarter of 1952, while imports exceeded the 1952 level. An import deficit of \$83 million contrasts with an export surplus of \$121 million in the first quarter of 1952. Both exports and imports rose rapidly in the second quarter of 1953, and with imports at a new peak, a deficit appeared on merchandise trade once more in contrast to the situation one year earlier. The first half of 1953 was the period of most rapid deterioration in both the trade and non-merchandise items. Receipts for services and from non-monetary gold exceeded the 1952 levels in this period but the increase in payments for services was greater. In line with changes in the volume and direction of trade, freight receipts were lower while payments rose over the levels of the first half of 1952. Dividend payments were also higher, and government payments abroad for defence costs were heaviest in the second and third quarters. The small current surpluses of the first two quarters of 1952 changed to deficits of \$189 million and \$190 million in the first two quarters of 1953.

The volume of imports reached a post-war quarterly peak in the second quarter of 1953. Both import and export values fell in the third quarter but the greater fall in the former led to a small surplus in trade. Both receipts and payments for non-merchandise transactions rose by about the same amount over the period one year earlier. The current deficit of \$16 million was the smallest for the year, due both to an improved trade balance from the preceding quarter and the seasonal peak in travel receipts in the third quarter.

### Capital movements and Canada's balance of indebtedness

Canada's current account deficit was, of course, financed by an equivalent net import of capital from abroad. Flows of private capital for long-term direct and portfolio investment together were more than enough to meet the deficit of \$467 million in 1953. In 1953 other capital movements were on a generally reduced scale compared with 1952. In that year persistent long-term capital inflows coincided with a current surplus and extremely large short-term capital outflows took place as a consequence.

Canada's transactions with other countries in 1953 contributed to a further growth of Canada's international indebtedness. At the end of 1952 foreign long-term investment of all types in Canada was estimated at about \$10.2 billion, and it seems likely that this increased to nearly \$11 billion during 1953. But Canada also has a considerable investment abroad in the form of private direct and portfolio investments, and of government assets including both loans to other governments and official holdings of gold and foreign exchange. Canada's net balance of international indebtedness

after declining through the war years has been growing with the period of heavy expansion in the Canadian economy, and is now again approaching the level of \$5.5 billion recorded in 1939. The great growth of Canadian productive resources since that time, however, has been chiefly financed from the savings of residents of Canada.

### Interest and exchange rates in 1953 in relation to Canada's balance of payments

Changing inter-relationships between interest rates in Canada and in the United States appear to have played an important role in Canada's balance of international payments in 1953. Over the year as a whole interest rates in both countries rose very slightly and the spread of 90 base points between representative long-term government bonds remained unchanged. In the course of the year, however, marked differences developed. By May and June, as a result mainly of higher rates in the United States, the spread had narrowed to 59 base points. The changing conditions in money markets in the United States, of which these figures are a reflection, resulted in a sudden but limited wave of liquidation of non-resident holdings of Canadian government bonds in the second quarter of the year; they were also a factor contributing to a sharp decline in the sale of new issues abroad by Canadians. As interest rates in the United States fell again in the latter part of the year, the volume of new issues abroad rose sharply and net capital imports also developed from trading in outstanding issues of government bonds.

At the close of the year the price of the United States dollar in Canada was 97.37 cents, an increase of 0.34 cents in the year. The trading range over the year of 3.03 cents was narrow in comparison with 1952. Despite the emergence of a substantial current account deficit in the first quarter, representing a change of over \$200 million, heavier long-term capital inflows for direct investment in Canadian enterprises and for new issues of Canadian securities provided strength, and the United States dollar rose only from an average of 97.02 cents in the fourth quarter of 1952 to 97.71 cents. In the succeeding quarter there was little change in the current account deficit but the sharp contraction of new issues and the capital outflow on account of outstanding securities contributed to a further rise to 99.08 cents. The substantial reduction of Canada's current account deficit in the third quarter was probably the leading factor in the fall of the United States dollar to 98.82 cents. In the final quarter, when the rate averaged 97.77 cents, the effects of a somewhat larger current deficit were more than offset by a substantial increase in the volume of new issues.

### Summary of Capital Movements, 1952 and 1953

(Millions of dollars)

	<u>1952</u>	<u>1953</u>
Direct investment in Canada	+ 332	+ 385
Canadian securities		
Trade in outstanding issues	- 95	- 31
New issues	+ 319	+ 322
Retirements	- 89	- 144
Official loan repayments	+ 56	+ 87
Canadian dollar holdings of foreigners	- 66	- 13
Official holdings of gold and foreign exchange	- 37	+ 38
Capital movements n.o.p.	- 577	- 177
Net Capital movement financing		
current account balance	- 157	+ 467



### Large direct investment capital flows both to and from Canada

The flow of capital into Canada for direct investment in foreign-controlled enterprises continued to increase in 1953, as it has each year since the end of the war. The net movement is tentatively estimated to have reached a record figure of \$385 million in 1953, an increase of some \$50 million over the preceding year. United States residents provided about \$325 million of the total. Preliminary figures suggest that the net movement from the United Kingdom, which was placed at \$15 million in 1952, was probably from two to three times this in 1953, and movements from other overseas countries also appear to have increased significantly. Nearly one-half of the total inflow went into the petroleum industry including exploration and development, pipelines, and refineries. Accounting for more than one quarter was the mining industry and related transportation facilities. Foreign direct investment capital also went into a variety of other businesses in Canada including the manufacture of such products as aircraft, home appliances, chemicals, and electric cables, and into such service fields as merchandising and banking. And it should not be overlooked that substantial amounts of the capital inflows recorded under other categories also were directly related to the financing of Canadian industry. A further \$30 million was, for example, provided by non-residents to mining and petroleum companies through the purchase of new stock and bonds issued by Canadian companies and through the extension of short and long-term loans recorded under "other capital movements". Manufacturing companies and finance companies also received important amounts of capital in this form.

Preliminary data suggest that the outflow of capital for direct investment in Canadian-owned enterprises abroad was of the order of \$55 million, a considerable reduction from the total for 1952, but well above earlier years. About one-half of the net movement was to the United States, and the balance was to overseas countries, including the United Kingdom. As in 1952 capital was supplied to a variety of undertakings including manufacturing industries, petroleum and other mining enterprises, and to utilities.

### Portfolio security transactions also lead to capital inflows

Portfolio security transactions gave rise in 1953 to a net capital movement into Canada of \$144 million, somewhat higher than in 1952 but well below the levels of the two preceding years. Trade in outstanding issues led to a relatively small purchase balance or capital outflow of \$12 million, in contrast to the record outflow of \$85 million which occurred in 1952. Taking the year as a whole, the general pattern of trading was much the same as in 1952. There continued to be net repurchases of Canadian government bonds from the United States, offset by net sales of securities of Canadian corporations. But these movements took place on a reduced scale and the repurchase balance with the United States fell. There was a striking increase in net sales to the United Kingdom of outstanding securities, mainly Canadian, which totalled \$29 million; this was the first annual sales balance since 1937. Net sales to other overseas countries aggregating \$20 million were also higher than in the previous year but did not reach the very high levels of 1951.

New issues and retirements of Canadian securities led to a net capital inflow of \$178 million, while similar transactions in foreign securities led to an outflow of \$22 million. Sales to non-residents of new Canadian issues were concentrated in the first and last quarters of the year when a substantial volume of financing was done in the New York market. The rapid rise of long-term interest rates in the United States in the second quarter, already referred to, contributed to a lower volume of offerings abroad in the middle quarters of the year. Two-thirds of the new issues sold to non-residents were those of provinces and municipalities, and the balance was about evenly divided between funded debt and equity securities of corporations. Retirements of non-resident owned Canadian securities were dominated by the repurchase in the second quarter for Government account of \$75 million Canada 3/63 (external) loan; this transaction was financed directly by a reduction of Canada's official holdings of gold and foreign exchange. Further comment on international security transactions in 1953 will be found in the DBS report "Sales and purchases of Securities between Canada and Other Countries, December 1953, and Review of Trade during 1953".

### Other capital movements closer to balance than in 1952

Repayments on loans to foreign governments brought Canada \$87 million in 1953 compared with \$56 million in 1952. Settlements from the United Kingdom on the Canadian loans of 1942 and 1946 accounted for \$64 million of the 1953 total, representing an increase of \$27 million over the preceding year. The new agreement between the United Kingdom and Canada with respect to repayment of the 1942 loan was discussed in detail in the last issue of this report.

Over the year foreigners reduced their holdings of Canadian dollars by \$13 million, increases of \$67 million in the first half of the year having been more than offset by decreases of \$80 million in the final six months. Canada's official holdings of gold and foreign exchange also declined over the year. A decrease of \$107 million in the first half of the year was accounted for principally by the Government debt repatriation mentioned above; in the final half of the year official holdings rose by \$69 million, leaving a net decrease or capital inflow of \$38 million for the year as a whole.

All other capital movements continued to be outwards on balance as in 1952. The net outflow of \$119 million in 1953 represents, however, a significant reduction from the figure of over \$500 million in the preceding year. In the second quarter of the year when there was the greatest pressure on Canada's balance of international payments a net inflow was recorded, the first such balance in this category of capital movements since the period of credit stringency in 1951. Precise analysis of this category of movements is not possible at the present time, and it should be noted that the heterogeneous character of the transactions covered makes the balance of limited significance.

#### Canadian Mutual Aid to NATO Countries

Canada's contributions of Mutual Aid to North Atlantic Treaty countries under the Defence Appropriation Act are of related interest although not included in the statements shown in this report. The value of goods and services contributed by Canada as Mutual Aid in 1953 was \$246 million bringing the total in the four years ending 1953 to approximately \$648 million. The amounts in the earlier years of 1950 to 1952 were \$57 million, \$145 million, and \$200 million respectively. In contrast to previous years a substantial part of this aid in 1953 took the form of military equipment currently produced in Canada. In addition there were again shipments of military equipment and stores from existing stocks in Canada, and the provision of air training by Canada to air crews of member countries. Many of these forms of aid directly or indirectly affected the balance of payments, in the direction of increasing the deficit.

Mutual Aid by Canada is additional to defence expenditures incurred in connection with the equipment and maintenance of Canadian military personnel in the North Atlantic Treaty countries, which are included in balance of payments statements, as are other military expenditures abroad.

#### Forthcoming annual report

A more detailed presentation and analysis of Canada's international accounts in 1953 will appear in the D.B.S. publication The Canadian Balance of International Payments, 1953 and International Investment Position which is expected to be published before the middle of the year.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1953 are preliminary and

		1951				1952
		I	II	III	IV	I
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	815	952	1,044	1,139	1,010
3	Gold production available for export .....	37	43	35	35	41
4	Travel expenditures .....	23	51	157	43	24
5	Interest and dividends .....	16	25	19	55	17
6	Freight and shipping.....	68	81	96	106	84
7	Inheritances and immigrants' funds .....	14	19	22	22	17
11	All other current receipts .....	65	57	65	62	63
12	<b>Total Current Receipts.....</b>	<b>1,038</b>	<b>1,228</b>	<b>1,438</b>	<b>1,462</b>	<b>1,256</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	946	1,193	1,082	876	889
4	Travel expenditures .....	54	74	96	56	63
5	Interest and dividends .....	100	96	91	163	82
6	Freight and shipping.....	59	93	102	100	65
7	Inheritances and emigrants' funds .....	15	17	19	19	21
9	Official contributions .....	1	5	-	3	11
11	All other current payments.....	99	102	113	109	97
12	<b>Total Current Payments .....</b>	<b>1,274</b>	<b>1,580</b>	<b>1,503</b>	<b>1,326</b>	<b>1,228</b>
	Balance on Merchandise Trade .....	- 131	- 241	- 38	+ 263	+ 121
	Balance on Other Transactions, excluding B 9 ....	- 104	- 106	- 27	- 124	- 82
	Official Contributions.....	- 1	- 5	-	- 3	- 11
<b>C</b>	<b>Current Account Balance .....</b>	<b>- 236</b>	<b>- 352</b>	<b>- 65</b>	<b>+ 136</b>	<b>+ 28</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 46	+ 75	+ 53	+ 135	+ 68
2	Direct investment abroad .....	- 3	- 4	- 4	- 9	- 6
	Canadian Securities					
3	Trade in outstanding issues .....	+ 63	+ 1	+ 11	- 37	-
4	New issues.....	+ 26	+ 155	+ 76	+ 154	+ 89
5	Retirements .....	- 25	- 37	- 67	- 55	- 12
	Foreign Securities					
6	Trade in outstanding issues .....	+ 1	+ 5	+ 5	+ 4	+ 6
7	New issues.....	-	- 1	- 1	- 1	- 19
8	Retirements .....	+ 1	-	+ 1	+ 1	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	-	+ 7	-	+ 27	-
11	Repayment of war loans.....	+ 5	+ 14	+ 8	+ 7	+ 2
14	Change in Canadian dollar holdings of foreigners	- 20	- 13	- 77	- 82	- 5
16	Change in official holdings of gold and foreign exchange (increase, minus).....	+ 110	- 45	+ 64	- 185	+ 24
17	Other capital movements .....	+ 32	+ 195	- 4	- 95	- 175
<b>E</b>	<b>Net Capital Movement.....</b>	<b>+ 236</b>	<b>+ 352</b>	<b>+ 65</b>	<b>- 136</b>	<b>- 28</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

- A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.
- A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1952 are subject to revision.

1952			1953				Annual Totals			
II	III	IV	I	II	III	IV	1951	1952	1953	
(millions of dollars)										
1,123	1,049	1,155	918	1,113	1,077	1,044	3,950	4,337	4,152	A
35	37	37	48	37	30	29	150	150	144	1
53	156	42	26	57	172	47	274	275	302	3
31	22	72	27	33	23	76	115	142	159	4
98	98	103	72	92	87	89	351	383	340	5
27	22	19	16	28	24	21	77	85	89	6
72	72	94	73	79	96	81	249	301	329	7
1,439	1,456	1,522	1,180	1,439	1,509	1,387	5,166	5,673	5,515	11
984	936	1,037	1,001	1,161	1,051	994	4,097	3,846	4,207	B
97	110	71	68	95	124	78	280	341	365	1
88	95	148	86	102	81	141	450	413	410	4
98	105	107	73	108	111	98	354	375	390	5
24	24	25	21	22	23	24	70	94	90	6
-	-	5	10	9	3	2	9	16	24	7
106	112	116	110	132	132	122	423	431	496	9
1,397	1,382	1,509	1,369	1,629	1,525	1,459	5,683	5,516	5,982	11
+ 139	+ 113	+ 118	- 83	- 48	+ 26	+ 50	- 147	+ 491	- 55	12
- 97	- 39	- 100	- 96	- 133	- 39	- 120	- 361	- 318	- 388	
-	-	- 5	- 10	- 9	- 3	- 2	- 9	- 16	- 24	
+ 42	+ 74	+ 13	- 189	- 190	- 16	- 72	- 517	+ 157	- 467	C
+ 75	+ 103	+ 86	+ 100	+ 90	+ 95	+ 100	+ 309	+ 332	+ 385	D
- 15	- 15	- 28	- 5	- 10	- 10	- 30	- 20	- 64	- 55	1
- 19	- 51	- 25	+ 10	- 36	- 4	- 1	+ 38	- 95	- 31	2
+ 161	+ 23	+ 46	+ 130	+ 50	+ 12	+ 130	+ 411	+ 319	+ 322	3
- 41	- 7	- 29	- 27	- 89	- 9	- 19	- 184	- 89	- 144	4
+ 2	+ 2	-	+ 1	+ 3	+ 1	+ 14	+ 15	+ 10	+ 19	5
- 1	-	-	- 1	- 1	- 2	- 19	- 3	- 20	- 23	6
-	-	-	+ 1	-	-	-	+ 3	-	+ 1	7
+ 9	-	+ 24	+ 2	+ 11	-	+ 24	+ 34	+ 33	+ 37	8
+ 6	+ 8	+ 7	+ 4	+ 7	+ 39	-	+ 34	+ 23	+ 50	10
+ 3	+ 2	- 66	+ 46	+ 21	- 69	- 11	- 192	- 66	- 13	11
- 32	- 25	- 4	+ 16	+ 91	- 35	- 34	- 56	- 37	+ 38	14
- 190	- 114	- 24	- 88	+ 53	- 2	- 82	+ 128	- 503	- 119	16
- 42	- 74	- 13	+ 189	+ 190	+ 16	+ 72	+ 517	- 157	+ 467	17
										E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.





67-001

## DOMINION BUREAU OF STATISTICS

OTTAWA - CANADA

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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FIRST QUARTER 1954

Canada's transactions in goods and services with other countries resulted in a current account deficit of \$170 million in the first quarter of 1954, compared with a deficit of \$184 million in the first quarter of 1953. Both merchandise exports and imports were lower than in the same period one year earlier but the greater fall in imports lowered the deficit on trade by \$34 million. Net payments for invisibles, on the other hand, were larger by \$20 million.

Very heavy receipts from the sale abroad of new issues of Canadian securities were virtually sufficient to cover this deficit, but there was a sharp decline in the import of capital for direct investment in foreign-controlled enterprises in Canada. The sum of the net capital inflows of foreign direct investment capital, portfolio security transactions and government loan repayments was however unchanged from the fourth quarter of the year. Total official holdings of gold and foreign exchange rose by \$4 million over the quarter; holdings of gold and United States dollars were increased by \$35 million in the first two months of the quarter but decreased by \$26 million in March. Other outflows of capital were much smaller in the first quarter of 1954. On the exchange market the noon average price of the United States dollar in Canadian funds was 97.01 cents compared with 97.77 cents over the last three months of 1953. This price had fallen month by month from 99.44 cents in June 1953 to 96.65 cents in February 1954. Through March a rising trend was in evidence and the noon average was 97.08 cents although market transactions were recorded on the final day at as high as 98.19 cents.

Canada has had quarterly deficits on current account continuously since the beginning of 1950, except for the fourth quarter of 1951 and during 1952. The current deficit was \$184 million in 1950 and \$191 million in the first and second quarters of 1953, but was reduced to \$13 million and \$51 million in the next two quarters. The rapid rise in import volume in the first half of 1953 was the most important factor in the re-appearance of deficits after the small surpluses of 1952. Contributory factors were the relative stability of export volume in the first half of 1953 compared to the first half of 1952, some deterioration in the terms of trade, and a deficit on invisibles larger than that for any half year period since the war. The smaller current deficits of the second half of 1953 were due partly to seasonal improvement in merchandise trade and invisible items. An important part of the change, however, reflected a retardation in the growth of import volume after mid-1953. In the fourth quarter of 1953 both export and import volume fell below the levels of one year earlier, with wheat accounting for an important part of the fourth quarter drop in exports.

Commodity trade lower in value and volume

As usual, trade in the first quarter was subject to a variety of influences both inside and outside of Canada. While reduced incomes and production in the United States influenced some exports, demand for other commodities remained high and some contractions in receipts like the drop in non-monetary gold were the result of special or non-recurring factors. At the same time economic activity in many overseas countries continued high and this was partly reflected in the maintenance of Canadian exports overseas. The reduced level of Canadian imports seems partly a continuation of a reaction from the peak levels reached in the middle of the previous year, as well as reflecting reductions in the levels of production and some types of business activity in Canada.

Prepared in the Balance of Payments Section, International Trade Division.  
503-509 : 8-6-54



In the first quarter of 1954 the value of exports fell by \$49 million and imports by \$83 million compared to the period one year earlier. Both export price and volume were some three per cent lower. Import volume fell almost eight per cent. Import prices rose slightly by contrast, and the terms of trade deteriorated about 3.5 per cent compared to the first quarter of 1953. The decrease in export volume was entirely restricted to January of 1954, and that in import volume was sharpest in January but was also reflected in the other two months of the quarter.

The decline in both merchandise exports and imports with all countries was about the same as that in trade with the United States. While sales and purchases of merchandise with overseas countries as a whole remained virtually unchanged, this pattern was not repeated by major countries or areas. Exports to the United Kingdom were higher while imports fell, thus increasing Canada's trade surplus with the United Kingdom. The surplus with other sterling area countries, however, was reduced; exports to this group of countries were down sharply, particularly to India and Pakistan, while imports increased. The trade surplus with the remaining countries was not greatly altered. While OEEC countries took more exports and those to Japan were sharply increased, a number of Latin American countries decreased their purchases from Canada.

The larger declines in export values in the first quarter of 1954 were in wheat, automobiles and base metals. Lower wheat exports reflect particularly the large shipments made in the first quarter of 1953 to India and Pakistan. The decline in exports of wheat in the fourth quarter of 1953 and first quarter of 1954 together accounted for almost half of the fall in exports compared to the corresponding quarters of 1952 and 1953. The largest group of exports and Canada's largest export product, the wood products group and newsprint respectively, continued at high levels. Exports of wood pulp increased, while planks and boards were lower. All major base metals except nickel fell in export value, reflecting mainly lower volume. Chemical products and exports of some animal products were higher.

The decline in imports was heavily concentrated in the fibres and textiles group and the iron and steel group, and for both groups generally reflects volume rather than price decreases. The decline in textile imports was widely spread throughout both raw materials and finished products, but mainly in cotton and products. Imports of farm implements and machinery were greatly reduced, and automobiles and parts were somewhat lower. Non-farm machinery was, however, at approximately the level of the first quarter of 1953. The retardation of the rapid growth in import volume in the third quarter of 1953 and the declines in volume since then reflect in part the relatively high level of inventories and cessation of growth in inventories in some industries.

#### Larger deficit on invisibles

Net payments for invisibles rose by \$20 million to \$120 million in the first quarter of 1954 compared to the same period of 1953. This change was due to a fall in receipts of \$20 million while payments were unchanged. Non-monetary gold available for export accounted for \$13 million of the fall in current receipts. This decrease reflects the high levels of the first quarter of 1953 and the fact that the strike in the mines was in effect for part of the first quarter of 1954. Larger net payments of interest and dividends accounted for the remainder of the increase. While dividend receipts have risen sharply in the last few years payments have fallen. In some cases the lower payments in recent quarters reflect lower earnings, but in part they also reflect decisions to retain earnings in Canadian subsidiaries. Receipts and payments on freight and shipping account were both lower, reflecting in part the lower volume of trade. Travel receipts and payments were virtually the same as in the first quarter of 1953. The other invisible items were also relatively unchanged.

While merchandise trade has played the leading role in the deficits since the first quarter of 1953, larger net payments for invisibles have also contributed to the change. The deficit on these items in 1953 was the largest since the war, and that for the first quarter of 1954 has been exceeded only twice in the post-war period. Increased deficits on invisibles in recent years arose particularly from the appearance of deficits on travel and freight and shipping accounts, and larger payments for government military services. In contrast, net payments for interest and dividends have tended to fall.

#### Transactions by Areas

In 1953 the current account deficit with the United States had widened by \$75 million to \$924 million while the surplus with overseas countries was sharply reduced by \$528 million to \$485 million. About four-fifths of the deterioration in the trade balance and all of the increased net payments for invisibles in 1953 were due to transactions with overseas countries. In the first quarter of 1954 the overall deficit was somewhat reduced from that of the same quarter of 1953, with a small decrease in the deficit with the United States and a small increase in the surplus with overseas countries.

Exports and imports with the United States were both lower compared to the first quarter of 1953, but with the greater fall in imports the trade deficit with the United States was reduced. Increased net payments for invisibles offset most of this however. The largest declines in exports were in base metals, although nickel exports were higher. Reductions also occurred in exports of farm machinery and planks and boards, but wood pulp exports and some animal products were higher and newsprint was well maintained. The fall in imports was mainly in three groups of commodities. Textile products were down by almost one-third, some iron products were lower and especially farm implements and machinery, and imports of fuels were lower.

While exports to and imports from overseas countries were about the same as in the corresponding quarter of 1953, the pattern was not consistent throughout. Exports rose to the United Kingdom and fell to other overseas countries while the reverse was the case with imports. The unusual deficit on invisibles with overseas countries was continued.

Exports to the United Kingdom had fallen in the first half of 1953 but exceeded the levels of one year earlier by the second half. The increase in the first quarter of 1954 over the same period of 1953 was concentrated mainly in agricultural products and wood products. Wheat and flour exports were about the same, but some other agricultural products such as barley and particularly tobacco were higher. Exports of several wood products were higher, including pulp and newsprint. While the picture was mixed for non-ferrous metals and products the group as a whole was lower. The decline in imports from the United Kingdom was mainly concentrated in the textiles group.

Trade with other overseas countries indicates a small decrease in exports and somewhat higher imports. The fall in exports can be traced partly to lower shipments of wheat to India and Pakistan and lower shipments of automobiles to a number of sterling area and Latin American countries.

#### New issues higher, direct investment lower

During the first quarter of 1954 portfolio security transactions resulted in a net capital inflow of \$171 million. This was the largest net quarterly movement into Canada since the spectacular inflow of \$304 million which occurred in the third quarter of 1950, a period ending in the withdrawal of fixed exchange rates in Canada. The inflow reflected principally receipts of \$169 million from the sale abroad of new issues of Canadian securities. Provincial direct and guaranteed debentures accounted for the largest part of the total but corporate and municipal bonds were also of importance. Interest rates in both Canada and the United States fell over the first quarter of the year, but the spread between them narrowed, reducing the interest-cost advantage of seeking capital in foreign markets.

A sharp decline occurred in the net inflow of foreign capital for direct investment in Canadian industry, which is tentatively estimated to have totalled \$65 million in contrast to the inflows of \$108 million in the preceding quarter and of \$103 million in the corresponding quarter of 1953. The inflow was smaller than for many quarters past. Capital imports for petroleum exploration and development appear to have been maintained but there were other large transactions in the first and final quarters of 1953 which did not recur. Some of the major investment programmes of foreign companies are approaching completion and their financial requirements are becoming smaller. Direct investment inflows from the United States, the United Kingdom and from other overseas countries were all smaller than in the fourth quarter of 1953.

One of the largest changes in the capital account was the reduction of the outflow on account of "capital movements n.o.p." from the very high levels recorded in the first and fourth quarters of 1953 and in most of 1952. Detail is not yet available to permit authoritative analysis of these movements. It is clear, however, that a wide variety of inflows and outflows was involved. Companies engaged in the consumer credit field were substantial importers of capital. Important movements both inwards and outwards occurred in the short-term financing of companies engaged in capital expansion programmes in Canada. There is some evidence of a further growth of Canadian holdings of bank deposits in the United States which may reflect the partial deferral of the transfer of proceeds of new security issues. It seems likely that the contracting values of trade, and the rising value of the United States dollar in terms of Canadian funds in the latter part of the quarter, may have given rise to shifts in Canada's international accounts receivable and payable.

<u>Current Transactions</u>	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	<u>1953</u>	<u>1954</u>	<u>1953</u>	<u>1954</u>	<u>1953</u>	<u>1954</u>	<u>1953</u>	<u>1954</u>
<u>First Quarter</u>								
Exports (adjusted)	918	869	590	539	119	134	209	196
Imports (adjusted)	1,002	919	759	679	103	93	140	147
Balance on trade	- 84	- 50	- 169	- 140	+ 16	+ 41	+ 69	+ 49
Other transactions (net)	- 100	- 120	- 79	- 101	- 14	- 13	- 7	- 6
Current account balance	- 184	- 170	- 248	- 241	+ 2	+ 28	+ 62	+ 43



Note: Data for 1954 are preliminary and

		1951	1952			
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,139	1,010	1,124	1,049	1,156
3	Gold production available for export .....	35	41	35	37	37
4	Travel expenditures .....	43	24	53	156	42
5	Interest and dividends .....	55	17	32	23	73
6	Freight and shipping.....	106	84	98	98	103
7	Inheritances and immigrants' funds .....	22	17	27	22	19
11	All other current receipts .....	62	58	67	67	89
12	<b>Total Current Receipts</b> .....	1,462	1,251	1,436	1,452	1,519
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	876	890	985	937	1,038
4	Travel expenditures .....	56	63	97	110	71
5	Interest and dividends .....	163	82	88	95	148
6	Freight and shipping.....	100	65	98	105	107
7	Inheritances and emigrants' funds .....	19	21	24	24	25
9	Official contributions .....	3	11	-	-	5
11	All other current payments.....	109	91	100	106	108
12	<b>Total Current Payments</b> .....	1,326	1,223	1,392	1,377	1,502
	Balance on Merchandise Trade .....	+ 263	+ 120	+ 139	+ 112	+ 118
	Balance on Other Transactions, excluding B 9 .....	- 124	- 81	- 95	- 37	- 96
	Official Contributions.....	- 3	- 11	-	-	- 5
<b>C</b>	<b>Current Account Balance</b> .....	+ 136	+ 28	+ 44	+ 75	+ 17
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 135	+ 71	+ 78	+ 106	+ 91
2	Direct investment abroad .....	- 9	- 9	- 21	- 19	- 28
	Canadian Securities					
3	Trade in outstanding issues .....	- 37	-	- 19	- 51	- 24
4	New issues.....	+ 154	+ 88	+ 159	+ 23	+ 46
5	Retirements .....	- 55	- 12	- 41	- 7	- 29
	Foreign Securities					
6	Trade in outstanding issues .....	+ 4	+ 6	+ 3	+ 3	-
7	New issues.....	- 1	- 19	- 1	-	-
8	Retirements .....	+ 1	-	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 27	-	+ 9	-	+ 24
11	Repayment of war loans.....	+ 7	+ 2	+ 6	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners ..	- 82	- 4	+ 4	+ 2	- 68
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 185	+ 24	- 32	- 25	- 4
17	Capital movements, n.o.p. ....	- 95	- 175	- 189	- 115	- 32
<b>E</b>	<b>Net Capital Movement</b> .....	- 136	- 28	- 44	- 75	- 17

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1953 are subject to revision.

1953				1954	Annual Totals			Four Quarters ending March 31, 1954	
I	II	III	IV	I	1951	1952	1953		
(millions of dollars)									
918	1,113	1,077	1,044	869	3,950	4,339	4,152	4,103	A
48	37	30	29	35	150	150	144	131	
26	57	172	47	24	274	275	302	300	
26	32	24	82	24	115	145	164	162	
71	92	86	88	68	351	383	337	334	
16	27	26	23	17	77	85	92	93	
69	73	95	84	68	249	281	321	320	
1,174	1,431	1,510	1,397	1,105	5,166	5,658	5,512	5,443	12
1,002	1,161	1,052	994	919	4,097	3,850	4,209	4,126	B
68	95	124	78	67	280	341	365	364	
86	102	81	141	91	450	413	410	415	
70	108	110	94	66	354	375	382	378	
21	22	25	23	22	70	94	91	92	
10	9	3	2	4	9	16	24	18	
101	125	128	116	106	423	405	470	475	
1,358	1,622	1,523	1,448	1,275	5,683	5,494	5,951	5,868	12
- 84	- 48	+ 25	+ 50	- 50	- 147	+ 489	- 57	- 23	C
- 90	- 134	- 35	- 99	- 116	- 361	- 309	- 358	- 384	
- 10	- 9	- 3	- 2	- 4	- 9	- 16	- 24	- 18	
- 184	- 191	- 13	- 51	- 170	- 517	+ 164	- 439	- 425	
+ 103	+ 90	+ 97	+ 108	+ 65	+ 309	+ 346	+ 398	+ 360	D
- 8	- 10	- 10	- 28	x	- 20	- 77	- 56	x	
+ 10	- 36	- 4	- 1	+ 16	+ 38	- 94	- 31	- 25	
+ 132	+ 60	+ 15	+ 135	+ 169	+ 411	+ 316	+ 342	+ 379	
- 28	- 88	- 9	- 17	- 16	- 184	- 89	- 142	- 130	
+ 2	+ 3	+ 1	+ 15	+ 4	+ 15	+ 12	+ 21	+ 23	
- 1	- 2	- 1	- 19	- 2	- 3	- 20	- 23	- 24	
+ 1	-	-	-	-	+ 3	-	+ 1	-	8
+ 2	+ 11	-	+ 24	+ 2	+ 34	+ 33	+ 37	+ 37	10
+ 4	+ 7	+ 39	-	+ 7	+ 34	+ 23	+ 50	+ 53	11
+ 45	+ 20	- 71	- 11	- 15	- 192	- 66	- 17	- 77	14
+ 16	+ 91	- 35	- 34	- 4	- 56	- 37	+ 38	+ 18	16
- 94	+ 45	- 9	- 121	- 56	+ 128	- 511	- 179	- 189	17
+ 184	+ 191	+ 13	+ 51	+ 170	+ 517	- 164	+ 439	+ 425	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

x Included with D 17.





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## DOMINION BUREAU OF STATISTICS

OTTAWA - CANADA

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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
SECOND QUARTER 1954

In the first half of 1954 Canada's transactions in goods and services with other countries resulted in a current account deficit of \$357 million. This was somewhat less than the deficit of \$375 million in the first half of 1953. The current deficit of \$178 million in the second quarter of 1954 was almost unchanged from that of \$179 million in the first quarter, and both were only moderately lower than the deficits of the first two quarters of 1953. Adjusted export and import values were both some 8 per cent lower in the first half of 1954 compared to the first half of 1953, while receipts and payments for invisibles each fell by 6 per cent. The deficit on trade decreased by \$6 million to \$126 million and that on invisibles by \$12 million to \$231 million in the half yearly comparison.

But the current deficit in the second quarter would have been significantly smaller if the statistical change referred to below had not affected the figures shown in the balance of payments statement. A change in statistical procedure raised the June import figure by a substantial but indeterminate amount. Indications at present are that this factor may have added at least some \$40 million to the total imports in the month. The change in compilation practice had the effect of recording as June imports two working days in addition to the usual full month. The effect of this non-recurring change should be kept in mind in assessing changes in imports and the deficit and in the item "capital movements n.o.p." which includes "leads and lags."

Although the current deficit was little changed from the first quarter, the movements of capital which financed it differed considerably. Portfolio security transactions, which in the first quarter led to net inflows of capital sufficiently large to cover practically all Canada's current deficit, were virtually in balance in the second quarter. Direct investment inflows were maintained at about the same rate as the first quarter. The other major source of financing was an inflow on account of "capital movements n.o.p." which is discussed later in this report.

Total official holdings of gold and foreign exchange rose by \$37 million over the quarter; holdings of gold and United States dollars were decreased by \$17 million in April but increased by \$53 million in May and June. On the exchange market, the noon average price of the United States dollar in Canadian funds was 98.27 cents compared with 97.01 cents in the first quarter. The Canadian dollar weakened over April but strengthened somewhat in May and June when the trading range was only 0.81 cents. Over the quarter, the range of trading was only 1.09 cents; this was the narrowest fluctuation recorded in any quarter since the withdrawal of fixed exchange rates in 1950.

The re-appearance of current deficits in the first half of 1953 was due primarily to very rapid increases in import volume. Contributory factors included the relative stability of export volume in the first half of 1953 compared to the first half of 1952, some deterioration in the terms of trade, and a deficit on invisibles larger than that for any half year period since the war. The current deficits were reduced in the second half of 1953 due partly to seasonal improvement on merchandise trade and invisible items. An important part of the change, however, reflected a retardation in the growth of import volume after mid-1953. In the fourth quarter of 1953 both export and import volume fell below the levels of one year earlier. The same occurred in the first and second quarters of 1954. The fall in export volume and value in the last nine months has been closely associated with declining exports of wheat, though a number of other commodities were involved also. Import volume fell more rapidly than export volume in the first half of 1954, but import prices rose slightly while export prices fell. This deterioration in the terms of trade continued a tendency evident since the fourth quarter of 1952. Transactions in non-merchandise items yielded a deficit only a little less than the record deficit on these transactions in the first half of 1953. The current deficit was somewhat reduced in the half year, but since current receipts and payments fell, it continued at 7 per cent of total current transactions as in the first half of 1953.

#### Commodity trade value and volume lower

The decline in exports and imports which has continued since the fourth quarter of 1953 reflects

Prepared in the Balance of Payments Section, International Trade Division.

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a variety of influences. The most important factor on the export side has been the decline in wheat exports to overseas countries which had been at most exceptional levels in 1952 and 1953. But shipments of other Canadian commodities overseas have been higher in value this year. Lower production levels in the United States reduced Canadian exports of some products but others were well maintained. The fall in Canadian imports reflects in particular the slowing down and reversal of the inventory growth so conspicuous for much of 1953. In some industries, such as textiles and some durable manufactures, activity has been reduced and imports affected. While total domestic output, seasonally adjusted, fell slightly in the fourth quarter of 1953 and first quarter of 1954, the more significant effect on imports was probably the marked change in composition of output. Output in many of the commodity producing industries has fallen in the past nine months or so, while that in the service industries has expanded. The former probably have a larger import content than the latter.

Adjusted merchandise exports fell by \$166 million in the first half of 1954 relative to the first half of 1953. About two-thirds of this decrease was in the second quarter. Imports fell by \$172 million, a decrease more evenly distributed over the two quarters. Export prices were about two to three per cent lower than in the previous year in each quarter, while import prices were about one per cent higher in each quarter. The terms of trade accordingly deteriorated by some 3 per cent, relative to the same quarters of 1953 but were still considerably more favourable than in the period before 1952. In the first quarter export volume declined 3 per cent from the low first quarter level of 1953, while the volume of imports fell by close to 8 per cent. In the second quarter both fell more rapidly; the volume of exports fell 7 per cent below the same quarter of 1953 while import volume fell 12 per cent in spite of the change in statistical procedure mentioned earlier which raised June imports.

About half the decline in exports in the six month period was with the United States, the remainder with the sterling area and O.E.E.C. countries. Exports to other countries were virtually unchanged, with sharp declines to Egypt and Korea offset by a large increase in exports to Japan. The decline in exports to the United States occurred in both quarters, while that to overseas countries as a whole was concentrated in the second quarter. While the largest absolute area decrease in exports was that to the United States, this was largely a reflection of the fact that about 60 per cent of Canadian exports were sold to that country in the first half of 1954; the percentage declines were greater in exports to Other Sterling Area countries and Western Europe.

The decline in imports in the first half year was concentrated in trade with the United States and United Kingdom; those from other overseas countries were higher compared to the same period one year earlier. The effect of these changes in adjusted exports and imports in the half year period was to lower the trade deficit with the United States and raise the surplus with the United Kingdom since in each case imports declined more than exports. With other overseas countries, however, the trade surplus was lowered as exports fell while imports rose. The deficit of \$126 million on trade with all countries was only slightly less than in the first half of 1953.

Summary of Current Transactions with the United States,  
the United Kingdom, and with Other Countries  
(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1953	1954	1953	1954	1953	1954	1953	1954
<u>Second Quarter</u>								
Exports (adjusted)	1,113	998	629	596	191	157	293	245
Imports (adjusted)	1,161	1,069	841	768	136	110	184	191
Balance on trade	- 48	- 71	- 212	- 172	+ 55	+ 47	+109	+ 54
Other transactions (net)	- 143	- 107	- 130	- 105	- 23	- 12	+ 10	+ 10
Current account balance	- 191	- 178	- 342	- 277	+ 32	+ 35	+119	+ 64
<u>January to June</u>								
Exports (adjusted)	2,031	1,865	1,219	1,134	310	291	502	440
Imports (adjusted)	2,163	1,991	1,600	1,447	239	205	324	339
Balance on trade	- 132	- 126	- 381	- 313	+ 71	+ 86	+178	+101
Other transactions (net)	- 243	- 231	- 209	- 210	- 37	- 25	+ 3	+ 4
Current account balance	- 375	- 357	- 590	- 523	+ 34	+ 61	+181	+105

The decrease in wheat exports from the exceptional levels of the two previous years was equivalent to almost three-quarters of the decline in exports in the first six months of 1954 compared to the same period of 1953. The decline was particularly sharp in the second quarter of 1954. Non-wheat exports as a group were moderately lower as compared to the first half of 1953, but the behaviour of specific commodities varied a good deal. Some of the larger absolute declines in non-wheat exports in the first six months were in other grains, automobiles, primary iron and steel, ferro-alloys and copper and zinc. On the other hand exports of newsprint and woodpulp were higher, nickel and aluminum exports rose in the second quarter in particular, and a number of farm products and chemicals were higher. The mixed behaviour of exports is evident from the fact that of Canada's sixteen leading commodity exports in the first half of 1953, apart from wheat, eight were higher in value and eight lower in the first half of 1954.

Virtually all of Canada's major import products declined in value in the first five months of 1954 compared to the same period of 1953, showing that the decline in imports was less concentrated by commodities than that in exports. Imports of fibres and textiles continued the decline of the first quarter into April and May, as did imports of farm implements and machinery. Imports of automobiles and parts fell in April and May after remaining fairly level in the first quarter. While few of the major imports rose in the five months, some of the large items were not far from the 1953 levels. This was the case in the very large item of non-farm machinery.

#### Deficit on invisibles continues at high levels

Net payments for invisibles in the first half of 1954 were \$231 million. This was \$12 million less than in the first half of 1953, when the deficit for invisibles had exceeded that of any half year period since the war. The decline in official contributions was close to this amount. While the deficit on other invisibles was not greatly changed the level of both receipts and payments fell. The deficit was greater in the first quarter and smaller in the second, relative to the levels of one year earlier. To an important degree this was due to special factors. Gold production available for export fell sharply from the first quarter of 1953 to the first quarter of 1954, while there were large non-recurring military expenditures of a service nature in the second quarter of 1953.

There were very sharp declines in receipts and payments on freight and shipping account in the second quarter. The reduced volume of trade in certain commodities was primarily responsible for these changes. Reduced exports of wheat, which has a high freight content, were of major importance on the receipts side. Gold production available for export had fallen in the first quarter of 1954, reflecting both the high production levels of one year earlier and the strike which was in effect until mid-February of 1954. In the second quarter of 1954, however, part of the first quarter decline was offset. Travel receipts and payments were almost unchanged from the first half of 1953. Receipts and payments both declined slightly in the first quarter of 1954 and rose in the second. Net payments for interest and dividends were reduced in the first half of 1954. While dividend receipts were about the same in the half year, those from the United States were lower while receipts from the Other Sterling Area countries rose. Dividend payments fell in the half year but part of this decline was offset by larger interest payments associated with the net new issues of recent quarters.

#### Transactions by Areas

While the current deficit with all countries was not greatly changed, there were important changes by areas. The deficit with the United States was decreased and the surplus with the United Kingdom increased in the half year period, thus tending to decrease the overall deficit in the accounts. But the surplus with other countries was sharply reduced by the contraction in grain shipments and this offset much of the change with the United States and United Kingdom.

Exports and imports with the United States were both lower in the second quarter and half year compared with the period one year earlier, but since imports declined more the trade deficit with the United States was reduced. The deficit on invisibles with the United States was unchanged in the half year period. Exports of lumber to the United States were below the 1953 levels but newsprint and pulp exports were virtually unchanged. While copper and zinc export values declined, other non-ferrous metal exports to the United States were well maintained and nickel exports increased. The decrease in imports was particularly evident in the textiles group and iron products.

The current account surplus with the United Kingdom in the half year exceeded the small surplus of one year earlier. This change was restricted almost wholly to the first quarter. In the half year, exports declined less than imports and the deficit on invisibles was decreased. Exports to the United Kingdom had risen in the first quarter but the second quarter decline more than offset this. Exports of wood products, non-ferrous metals and several other groups were higher in the six months comparison but the sharp decline of wheat exports, which was concentrated in the second quarter, offset these increases.

The decline in the surplus with other overseas countries can also be traced in large part to wheat, and in particular to large shipments to India and Pakistan in the first half of 1953 which did not recur in the first half of 1954. The decline in exports was mainly concentrated in the second quarter of 1954. Imports from both the Other Sterling Area countries and non-sterling overseas countries have risen by contrast.



### Direct investment maintained but security inflow dropped

Net inflows of foreign capital for direct investment in Canadian industry are tentatively estimated to have totalled \$70 million in the second quarter, about the same rate as in the first three months of the year. Capital imports for petroleum exploration and development accounted for about seven-tenths of the net inflow, continuing at the high levels of 1953. Inflows for mining brought the share of resource development as a whole to more than nine-tenths, in contrast to 1952 and 1953 when it amounted to about three-quarters of the total. Other inflows for direct investment were smaller than last year and the total movement in the first half of the year was reduced by more than 25 per cent compared with 1953.

Portfolio security transactions in the second quarter of 1954 led to a capital inflow of only \$3 million, in contrast with \$169 million in the first quarter of the year. Gross transactions exceeded \$500 million in each quarter. Long-term interest rates in Canada continued to fall during the second quarter, and the spread between rates in Canada and in the United States fell about 1/4 per cent. Proceeds of new Canadian issues sold abroad, amounting to \$70 million or \$99 million below the previous quarter, included nearly \$60 million of issues payable in United States funds which were placed privately. Of the total sales, \$20 million represented provincial and municipal issues, and the remainder was mainly corporate financing. While the larger part of the proceeds was used to finance expansion programmes in Canada or subsidiaries abroad, nearly half covered the refunding of other issues held by non-residents.

Retirements of foreign-held debt totalled \$73 million in the quarter. About \$48 million of the total is estimated to have been payable solely in United States funds, and a further \$16 million was payable optionally in that currency. Governments and municipalities, mainly provincial governments, accounted for about \$59 million of the total. The changes in interest rates led to some refunding, and retirements included several long-term provincial issues which had been sold abroad in 1951 and 1952 and were called for redemption with part of the refinancing done in the Canadian market. Some refunding abroad took place as the result of changing corporate financial arrangements and did not give rise to any change in Canada's interest costs. Other retirements represented the normal maturity of obligations held abroad or the retirement in advance of maturity of Canadian domestic issues part of which had been acquired by non-residents.

Trading in outstanding Canadian securities in the three months resulted in a sales balance or capital import of \$22 million. Part of this total represented the temporary employment in Government of Canada obligations of some of the proceeds of a new issue placed in Canada by a non-resident borrower. But this inflow was largely offset by re-purchases of Government bonds from other non-residents. But the significant characteristic of trade was the continued interest of non-residents in Canadian stocks, resulting in sales balances of more than \$20 million in each of the two quarters of 1954, following repatriation in the final quarter of 1953. The commencement of operations by several new companies formed to provide a medium for United States investment in Canada appears to have had only a limited effect on trading to the middle of the year.

Transactions in foreign securities were dominated by the sale of a new issue in Canada by the International Bank for Reconstruction and Development. This accounted for most of the purchases by Canadians of new issues of foreign securities which aggregated \$26 million. Trade in outstanding foreign issues led to a net capital inflow of \$10 million, most of which represented liquidation of Canadian holdings of United States stocks.

### Other capital movements showed large reversal

Canada received repayments of \$19 million on its outstanding loans to foreign governments during the second quarter of the year. Further inflows arose from an increase of \$16 million in holdings of Canadian dollars by non-residents, following three quarters during which these holdings were reduced by nearly \$100 million. It seems likely that some of the increase represented funds destined for investment in Canadian securities which were held in the form of cash balances at the end of June. Reference has already been made to the changes which occurred in Canada's official holdings of gold and foreign exchange.

The abrupt change of "capital movements n.o.p." from an outflow of \$50 million in the first quarter to an inflow of \$107 million in the second quarter took place in a period of relative exchange stability. Among factors contributing to the inflow were an increase in holdings of Canadian funds by international institutions, and a marked reduction of Canadian holdings of United States funds, which had risen in the preceding quarter. But in contrast, substantial borrowings in the first quarter by companies engaged in the consumer credit field were partially repaid in the second quarter. Undoubtedly of considerable importance in the shift was the record growth of June imports (unadjusted) by nearly \$65 million over March. As has been noted, a significant part of this increase was caused by a change in statistical procedure which resulted in the extension of the June compilation month by approximately two days. "Capital movements n.o.p." would be affected not only by any actual growth in the rate of imports, with which some increase in accounts payable would normally be expected, but also by the statistical adjustment, because this item includes the residual in estimates of Canada's balance of payments. Both these factors would have tended to give rise to an import of capital in the estimates.

Summary of Capital Movements

(Millions of dollars)

	<u>1953 First Half</u>	<u>1953 Second Half</u>	<u>1954 First Half</u>
Direct investment in Canada	+ 193	+ 205	+ 140
Canadian securities			
Trade in outstanding issues	- 26	- 5	+ 38
New issues	+ 192	+ 150	+ 239
Retirements	- 116	- 26	- 91
Foreign securities	+ 3	- 4	- 14
Official loan repayments	+ 24	+ 63	+ 28
Canadian dollar holdings of foreigners	+ 65	- 82	+ 1
Official holdings of gold and foreign exchange (increase, -)	+ 107	- 69	- 41
Capital movements, n.o.p.	- 67	- 168	+ 57
<hr/>			
Net capital inflow financing current account deficit	+ 375	+ 64	+ 357



# QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1954 are preliminary and

		1952				1953
		I	II	III	IV	I
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,010	1,124	1,049	1,156	918
3	Gold production available for export .....	41	35	37	37	48
4	Travel expenditures .....	24	53	156	42	26
5	Interest and dividends .....	17	32	23	73	26
6	Freight and shipping.....	84	98	98	103	71
7	Inheritances and immigrants' funds .....	17	27	22	19	16
11	All other current receipts .....	58	67	67	89	69
12	<b>Total Current Receipts.....</b>	<b>1,251</b>	<b>1,436</b>	<b>1,452</b>	<b>1,519</b>	<b>1,174</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	890	985	937	1,038	1,002
4	Travel expenditures .....	63	97	110	71	68
5	Interest and dividends .....	82	88	95	148	86
6	Freight and shipping.....	65	98	105	107	70
7	Inheritances and emigrants' funds .....	21	24	24	25	21
9	Official contributions .....	11	-	-	5	10
11	All other current payments.....	91	100	106	108	101
12	<b>Total Current Payments .....</b>	<b>1,223</b>	<b>1,392</b>	<b>1,377</b>	<b>1,502</b>	<b>1,358</b>
	Balance on Merchandise Trade .....	+ 120	+ 139	+ 112	+ 118	- 84
	Balance on Other Transactions, excluding B 9 .....	- 81	- 95	- 37	- 96	- 90
	Official Contributions.....	- 11	-	-	5	- 10
<b>C</b>	<b>Current Account Balance .....</b>	<b>+ 28</b>	<b>+ 44</b>	<b>+ 75</b>	<b>+ 17</b>	<b>- 184</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 71	+ 78	+ 106	+ 91	+ 103
2	Direct investment abroad .....	- 9	- 21	- 19	- 28	- 8
	Canadian Securities					
3	Trade in outstanding issues .....	-	- 19	- 51	- 24	+ 10
4	New issues.....	+ 88	+ 159	+ 23	+ 46	+ 132
5	Retirements .....	- 12	- 41	- 7	- 29	- 28
	Foreign Securities					
6	Trade in outstanding issues .....	+ 6	+ 3	+ 3	-	+ 2
7	New issues.....	- 19	- 1	-	-	- 1
8	Retirements .....	-	-	-	-	+ 1
	Loans by Government of Canada					
10	Repayment of post-war loans .....	-	+ 9	-	+ 24	+ 2
11	Repayment of war loans.....	+ 2	+ 6	+ 8	+ 7	+ 4
14	Change in Canadian dollar holdings of foreigners....	- 4	+ 4	+ 2	- 68	+ 45
16	Change in official holdings of gold and foreign exchange (increase, minus).....	+ 24	- 32	- 25	- 4	+ 16
17	Capital movements, n.o.p. ....	- 175	- 189	- 115	- 32	- 94
<b>E</b>	<b>Net Capital Movement.....</b>	<b>- 28</b>	<b>- 44</b>	<b>- 75</b>	<b>- 17</b>	<b>+ 184</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and

B 1) items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income,

B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1953 are subject to revision.

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II	III	IV	I	II	1951	1952	1953		
(millions of dollars)									
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									11
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1,161	1,052	994	922	1,069*	4,097	3,850	4,209	4,037	B
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- 9	- 3	- 2	- 4	- 2	- 9	- 16	- 24	- 11	
- 191	- 13	- 51	- 179	- 178	- 517	+ 164	- 439	- 421	C
									D
+ 90	+ 97	+ 108	+ 70	+ 70	+ 309	+ 346	+ 398	+ 345	1
- 10	- 10	- 28	x	x	- 20	- 77	- 56	x	2
- 36	- 4	- 1	+ 16	+ 22	+ 38	- 94	- 31	+ 33	3
+ 60	+ 15	+ 135	+ 169	+ 70	+ 411	+ 316	+ 342	+ 389	4
- 88	- 9	- 17	- 18	- 73	- 184	- 89	- 142	- 117	5
+ 3	+ 1	+ 15	+ 4	+ 10	+ 15	+ 12	+ 21	+ 30	6
- 2	- 1	- 19	- 2	- 26	- 3	- 20	- 23	- 48	7
-	-	-	-	-	+ 3	-	+ 1	-	8
+ 11	-	+ 24	+ 2	+ 11	+ 34	+ 33	+ 37	+ 37	10
+ 7	+ 39	-	+ 7	+ 8	+ 34	+ 23	+ 50	+ 54	11
+ 20	- 71	- 11	- 15	+ 16	- 192	- 66	- 17	- 81	14
+ 91	- 35	- 34	- 4	- 37	- 56	- 37	+ 38	- 110	16
+ 45	- 9	- 121	- 50	+ 107	+ 128	- 511	- 179	- 111	17
+ 191	+ 13	+ 51	+ 179	+ 178	+ 517	- 164	+ 439	+ 421	E

## NOTES:

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\* Raised significantly by procedural change - see text.





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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
THIRD QUARTER 1954

Transactions in goods and services with other countries led to a current deficit of \$330 million in the first nine months of 1954, compared with a deficit of \$388 million in the same period of 1953. The deficits of \$173 million and \$179 million in the first two quarters of the year changed to a small surplus of \$22 million in the third quarter of 1954. This sharp change was due primarily to seasonal movements in the merchandise trade and travel accounts, and also to the effects of a statistical discontinuity which had raised June imports.<sup>(1)</sup> The corresponding current balance in the third quarter of 1953 had been a small deficit of \$13 million.

Both the nine month and third quarter comparisons indicate some improvement in the current account deficits of one year earlier. In each case the changes were due about equally to merchandise trade and to services. In both the third quarter and nine months, compared to 1953, the bilateral disequilibrium in the current account balance has been reduced, with a fall in both the deficit with the United States and the surplus with overseas countries. The surplus with the United Kingdom, however, has increased. In the third quarter of 1954 the deficit with the United States was unusually small, and almost matched by the surplus with the United Kingdom.

It should be noted, however, that the reduced deficits of 1954 have occurred at a lower aggregate level of transactions. Total current receipts and payments in the first nine months of 1954 were each lower by about 7 per cent, with merchandise receipts and payments down about 8 per cent each and service receipts and payments each lower by about 4 per cent.

The changes in each of the main components of the capital account in the third quarter were of an equilibrating nature when viewed against the striking change of \$201 million in the current account balance. Movements of direct investment and portfolio capital, official loan repayments, and other capital transactions all showed reduced inflows or increased outflows of capital. The largest single factor was a change of \$126 million in "other capital movements". Total official holdings of gold and foreign exchange were increased by \$38 million during the quarter. On the exchange market, the Canadian dollar showed considerable strength. The noon average price of the United States dollar in Canadian funds fell to 97.14 cents from 98.27 cents in the second quarter. The trading range of 1.13 cents was only slightly wider than in the preceding quarter.

Canada's current account deficit of \$330 million for the first nine months of 1954 was more than financed by the movement of long-term capital. The net inflow of foreign private long-term capital and official loan repayments aggregated \$434 million, while outflows for Canadian long-term investment abroad amounted to \$71 million. The outflow to finance an increase in official holdings of gold and foreign exchange totalled \$79 million, and there were net inflows from all other capital transactions, mainly short-term, of \$46 million.

The current surplus in the third quarter, while small, is worth putting in the perspective of the past several years. Canada has had quarterly current deficits consistently since the first

<sup>(1)</sup> A change in statistical procedure, discussed in the previous issue of this publication, raised June imports by some \$40 million.

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quarter of 1950, except for the last quarter of 1951 and during 1952 when grain exports soared and the terms of trade rapidly improved. A strongly rising volume of imports in particular, however, led to the re-appearance of current deficits in the first half of 1953. In the second half of 1953 the current deficits were reduced. This was in part a seasonal improvement in the balances of trade and invisible items. On a seasonally adjusted basis, both imports and exports fell sharply in the fourth quarter of 1953. Adjustments in output and imports had become necessary in a number of industries, partly in reaction to a rapid build-up of inventories earlier. Declines in exports of wheat, beginning in the fourth quarter of 1953, have formed a very large part of the fall in exports since then.

The current account deficit in the first half of 1954 was less than that of the first half of 1953, and, as already noted, a small surplus appeared in the third quarter of 1954. Both export and import volume in the first three quarters of 1954 have been below the levels of one year earlier, the fall in the latter exceeding that of the former. By contrast, import prices have been stable or slightly higher, while export prices have fallen. The terms of trade have continued a tendency evident since the fourth quarter of 1952, and have deteriorated by about 3 per cent in each quarter of 1954 relative to the same quarter of 1953. The data for the third quarter of 1954 reveal these trends as clearly as the first and second quarters, when comparisons are made with the period a year earlier. In the third quarter of 1954 import volume fell about 10 per cent and export volume 6 per cent. Import prices, however, were stable, while export prices fell 3 per cent from the levels of one year earlier.

While both the volume and value of exports and imports have been below the levels of one year earlier since the fourth quarter of 1953, the quarter to quarter movements in exports and imports have been upward since the first quarter of 1954. When allowance is made for seasonal factors, exports experienced a sharp decrease in the fourth quarter of 1953 but have been rising slowly since the first quarter of 1954. Imports fell sharply in both the fourth quarter of 1953 and the first quarter of 1954, on a seasonally adjusted basis, but the trend has been broadly upward since then.

#### Trade deficit and trade levels lower in nine months

The decline in wheat exports from the high 1952 and 1953 levels has been the most important factor in the decrease of exports. Fully three-quarters of the decline in total exports to all countries was due to wheat, and exports of other grains were also reduced. Various exports of manufactured goods have also declined, but exports of basic raw materials have increased. The lower levels of imports reflect in part the earlier rapid increase in inventories relative to sales, particularly for some consumer durable products. The reaction to this situation in durables led to reductions in both domestic output and imports, particularly the latter. While consumer expenditures were higher in 1954 to date, the increase was to a large extent in services, which do not involve as high an import content as do many commodities. Some other factors in the decline in imports were the fall in farm income with its effects on imports of farm machinery, and the continued decline in imports of coal as other sources of energy are exploited more fully.

Adjusted merchandise exports and imports fell by \$236 million and \$265 million respectively in the first nine months of 1954 compared to the same period of 1953. The declines were approximately 8 per cent in each case. The fall in imports has been fairly evenly distributed over all three quarters. That in exports has affected all three quarters, but was more heavily concentrated in the second. The decreases in export and import volume from the levels one year before were 3 and 8 per cent respectively in the first quarter, 8 per cent each in the second, and about 6 and 10 per cent in the third. It will be noted that the fall in import volume has been larger and more even than that in exports. The effect of this on import and export values has been modified, however, by differing behaviour in prices. Export prices have fallen about 3 per cent each quarter relative to the year before, while import prices have been stable or slightly higher. The terms of trade, which improved by about 20 per cent from the second quarter of 1951 to the third quarter of 1952, have deteriorated since the latter date by about 8 per cent. At the present levels, however, they are still well over the averages in 1948-51 inclusive.

About 40 per cent of the decline in exports was with the United States in the nine month period, while close to 60 per cent of total exports went to that country in the first nine months of 1953. In other words, the relative decline in exports was smaller to the United States than to overseas countries. The percentage declines for the United States, United Kingdom, and other overseas countries were 5, 7, and 14 per cent respectively. The third quarter to third quarter comparisons were 2, 7, and 17 per cent respectively. If wheat is excluded, however, exports both to the United Kingdom and to other sterling area countries were higher in the nine months, while those to non-sterling overseas countries were only moderately lower. Imports from both the United States and United Kingdom have been lower in each quarter of 1954 compared to one year earlier, while those

from other overseas countries have been somewhat higher. The decline in the nine months was 10 per cent in the case of the United States and 16 per cent in the case of the United Kingdom.

These changes in adjusted exports and imports had the effect of lowering the trade deficit with the United States and raising the trade surplus with the United Kingdom, in the nine month period. In each case imports declined more than exports. With other overseas countries, however, the surplus was considerably reduced as a result of a large reduction in exports and an increase in imports. These statements apply, as well, to the third quarter comparisons. The total deficit on trade was reduced from \$107 million in the first nine months of 1953 to \$78 million in the corresponding period of 1954.

As noted above, the decline in exports of wheat amounted to three-quarters of the decline in total exports in the nine months of 1954, while the decline in wheat and grains together was equivalent to the decline in total exports. Both the second and third quarters shared in the decreases in exports of grains. Adjusted exports, other than grains, were stable in the nine month period, and higher in the third quarter comparison. The individual behaviour of non-grain exports varied a good deal, however. In the nine months there were declines in such exports as automobiles, primary iron and steel products, ferro-alloys and flour. Each of these items fell in the third quarter as well as in the nine months, compared to a year earlier. There were substantial increases, however, in a large number of major exports in the nine months. These include several wood products, especially planks and boards, wood pulp and newsprint, and other commodities such as fish products and nickel. A number of exports, furthermore, increased in the third quarter whereas they had fallen in one or both of the preceding quarters. This was true for planks and boards and several of the base metals. Iron ore exports rose late in the quarter as shipments from Labrador commenced. Of Canada's eighteen major exports other than wheat and other grains, half had fallen and half increased in the first six months of 1954; in the nine month comparison, however, two-thirds of the major exports had increased.

The decline in imports has been more widespread than that in exports. The major absolute declines in the first eight months of 1954, however, have been in raw cotton and wool and their products, farm implements and machinery, and automobiles and parts. These together accounted for about 55 per cent of the total fall in imports in the eight months. There were declines also in coal and petroleum, rolling mill products, engines and boilers, and refrigerators, but imports of a number of agricultural products were higher. The largest import group, non-farm machinery, was virtually unchanged.

#### Smaller deficit on invisibles

Net payments for invisibles fell by \$29 million to \$252 million in the first nine months of 1954. Both receipts and payments, but particularly the latter, have fallen below their 1953 levels. This is mainly due to sharply lower freight and shipping receipts and payments. To an important degree it also reflects large non-recurring military service expenditures in 1953, and lower exports financed by official contributions in 1954.

Gold available for export was slightly higher in the nine months; a sharp fall in the first quarter, and increases in succeeding quarters, reflect the effects of the strike which ended in the first quarter. The lower volume of trade, and further transfers of ships from Canadian registry, have brought markedly lower levels of freight receipts and payments.

Travel receipts and payments were virtually unchanged in the half-year, but estimates for the third quarter show somewhat larger payments and lower receipts than in the same quarter of 1953. Total receipts and payments of interest and dividends have been virtually unchanged in the nine months. While no marked trend has developed for dividend payments, interest payments have been rising in recent quarters as a result of the large net new issues floated earlier.

#### Transactions by areas

The current account deficits of the first two quarters of 1953 were reduced in the same period of 1954, while the small deficit of the third quarter of 1953 changed to a small surplus in the third quarter of 1954. Over the nine months the deficit was reduced by \$58 million to \$330 million, with trade and invisibles each accounting for about half of the improvement. This change reflects a decrease in the deficit with the United States and an increase in the surplus with the United Kingdom, partly offset by substantial reductions in the surplus with other sterling area countries and non-sterling overseas countries.



Throughout each quarter of 1954 exports to the United States have declined less than imports, and the trade balances improved, compared to the same quarters of 1953. The deficit with the United States on invisibles was unchanged in the first half of 1954, but some improvement occurred in the third quarter with the increase in gold production and a sharp fall in payments for freight. Over half of the decline in exports to the United States in the nine months was due to lower exports of grains and a number of base metals. Copper and zinc in particular were lower, but nickel higher. The major wood products exports were well maintained. The decline in imports, in the eight month period to the end of August, was mainly in such iron and steel products as farm implements and automobiles, but coal, petroleum, and a number of textiles were also considerably lower.

Exports to the United Kingdom increased in the first quarter but the decline in subsequent quarters much more than offset this; imports have declined in each quarter relative to a year earlier. Non-wheat exports to the United Kingdom have risen, however, in response to buoyant levels of economic activity in that country. In both the third quarter and nine month comparisons the trade surplus with the United Kingdom has risen. In both periods, moreover, the deficit on invisibles with the United Kingdom has fallen, mainly because of large non-recurring military service expenditures in 1953. While exports of grains were sharply lower in the nine months, there were important increases in exports of newsprint and planks and boards, and a number of base metals. The decline in imports from the United Kingdom was mainly concentrated in textiles and products, and automobiles.

The decline in exports to other overseas countries has been moderate, if the large decline in wheat is excluded. Automobile exports have fallen to such countries but some increases, as in metals, have partly offset these decreases. The fall in wheat has affected exports to both the other sterling area and non-sterling overseas countries. Special large shipments to India and Pakistan in 1953 have in particular affected the 1953-54 comparison. Imports from overseas countries as a group, excluding the United Kingdom, have risen in the first nine months of 1954. Imports of textiles and products have fallen, but several agricultural products and petroleum from Venezuela have increased.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries

(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1953	1954	1953	1954	1953	1954	1953	1954
<u>Third Quarter</u>								
Exports (adjusted)	1,077	1,006	612	601	194	180	271	225
Imports (adjusted)	1,052	961	742	670	116	95	194	196
Balance on trade	+ 25	+ 45	- 130	- 69	+ 78	+ 85	+ 77	+ 29
Balance on invisibles	- 38	- 23	- 5	+ 6	- 30	- 16	- 3	- 13
Current account balance	- 13	+ 22	- 135	- 63	+ 48	+ 69	+ 74	+ 16
<u>January to September</u>								
Exports (adjusted)	3,108	2,872	1,831	1,739	504	467	773	666
Imports (adjusted)	3,215	2,950	2,342	2,116	355	299	518	535
Balance on trade	- 107	- 78	- 511	- 377	+ 149	+ 168	+ 255	+ 131
Other current receipts	1,007	968	750	727	120	111	137	130
Other current payments	1,288	1,220	964	929	187	152	137	139
Balance on invisibles	- 281	- 252	- 214	- 202	- 67	- 41	-	- 9
Current account balance	- 388	- 330	- 725	- 579	+ 82	+ 127	+ 255	+ 122

Inward movement of long-term capital smaller

Net inflows to Canada of long-term capital showed a continued tendency to contract. Inflows of foreign capital for direct investment in Canadian industry are tentatively estimated to have totalled \$65 million in the third quarter, with a marked reduction in foreign financing of petroleum exploration and development. The rate of direct investment inflow to the petroleum industry during the quarter was only about two-thirds of the annual rate for 1953; this was in contrast to the earlier quarters of 1954 when the rate was higher than last year. Inflows for mining have been at a lower rate during each quarter of 1954 than for 1953 as a whole. The reduction has amounted to 25 per cent for the three quarters. Total direct investment inflows of \$220 million in the first nine months of 1954 were about three-quarters of the amount for the comparable period of 1953. About 60 per cent of the funds were destined for the petroleum industry, 30 per cent for mining, and 10 per cent for manufacturing and other undertakings. Outflows of capital from Canada for direct investment abroad are estimated at \$55 million for the first nine months of the year, or nearly double the rate of outflow for the same period of 1953.

Portfolio security transactions between Canada and other countries during the third quarter led to a capital outflow of \$18 million in contrast to the inflows of \$13 million and \$165 million recorded in the second and first quarters respectively. Despite the turnover of nearly \$400 million, trade in outstanding Canadian securities was in virtual balance. A substantial inflow from the sale of equity securities was offset by repurchases of Canadian government and municipal debt. There were net sales to non-residents of \$32 million of Canadian stocks. These sales raised the total for nine months to \$74 million or more than has occurred in any full post-war year. They include sales to new Canadian diversified management companies formed by United States interests, which raised some \$90 million of capital between June and September. Net repurchases during the quarter of Canadian bonds, mainly government and municipal issues, totalled \$32 million and would have been substantially larger had there not been sales representing the temporary employment of funds raised in Canada by a non-resident borrower during the second quarter. Factors which might have been expected to lead to repatriation included both the further narrowing of the differential between yields on long-term Canadian and United States issues, and the higher exchange value of the Canadian dollar.

The proceeds of new Canadian issues sold to non-residents amounted to \$29 million. More than two-thirds of this total represented private placements abroad, some of which covered deferred deliveries on earlier sales. Non-resident participation in issues in Canada accounted for most of the balance. A significant part of the new funds was used to finance capital expansion abroad by the Canadian borrowers. Retirements of foreign-held Canadian issues amounted to \$45 million, and were dominated by an official transaction of debt repatriation. Also of major importance were the refunding in Canada of a 20-year United States dollar issue floated in 1952, and some retirements of Canadian stocks.

Transactions in foreign securities led to a capital outflow of \$2 million during the quarter, as Canadians purchased new issues of United States and other foreign bonds. Trading in outstanding issues resulted in some net switching of holdings of United States bonds into stocks.

Other capital movements

The balance of payments category "other capital movements" reflects an outflow of \$23 million in the third quarter, in striking contrast to the inflow of \$103 million shown for the second quarter. Nearly nine-tenths of the change of \$126 million in this item is accounted for by three of the components. In the second quarter, two of these had shown significant inflows which did not recur in the third quarter: the increase in accounts payable corresponding to the import compilation adjustment in that quarter, and a decrease in holdings of exchange associated with outstanding forward exchange contracts. Holdings of Canadian funds by international institutions were reduced sharply in the third quarter after having been increased in the second.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1954 are preliminary and

		1952			1953	
		II	III	IV	I	II
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,124	1,049	1,156	918	1,113
3	Gold production available for export .....	35	37	37	48	37
4	Travel expenditures .....	53	156	42	26	57
5	Interest and dividends .....	32	23	73	26	32
6	Freight and shipping.....	98	98	103	71	92
7	Inheritances and immigrants' funds .....	27	22	19	16	27
11	All other current receipts .....	67	67	89	69	73
12	<b>Total Current Receipts</b> .....	1,436	1,452	1,519	1,174	1,431
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	985	937	1,038	1,002	1,161
4	Travel expenditures .....	97	110	71	68	95
5	Interest and dividends .....	88	95	148	86	102
6	Freight and shipping.....	98	105	107	70	108
7	Inheritances and emigrants' funds .....	24	24	25	21	22
9	Official contributions .....	-	-	5	10	9
11	All other current payments.....	100	106	108	101	125
12	<b>Total Current Payments</b> .....	1,392	1,377	1,502	1,358	1,622
	Balance on Merchandise Trade .....	+ 139	+ 112	+ 118	- 84	- 48
	Balance on Other Transactions, excluding B 9 .....	- 95	- 37	- 96	- 90	- 134
	Official Contributions.....	-	-	- 5	- 10	- 9
<b>C</b>	<b>Current Account Balance</b> .....	+ 44	+ 75	+ 17	- 184	- 191
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 78	+ 106	+ 91	+ 103	+ 90
2	Direct investment abroad .....	- 21	- 19	- 28	- 8	- 10
	Canadian Securities					
3	Trade in outstanding issues .....	- 19	- 51	- 24	+ 10	- 36
4	New issues.....	+ 159	+ 23	+ 46	+ 132	+ 60
5	Retirements .....	- 41	- 7	- 29	- 28	- 88
	Foreign Securities					
6	Trade in outstanding issues .....	+ 3	+ 3	-	+ 2	+ 3
7	New issues.....	- 1	-	-	- 1	- 2
8	Retirements .....	-	-	-	+ 1	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 9	-	+ 24	+ 2	+ 11
11	Repayment of war loans.....	+ 6	+ 8	+ 7	+ 4	+ 7
14	Change in Canadian dollar holdings of foreigners ..	+ 4	+ 2	- 68	+ 45	+ 20
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 32	- 25	- 4	+ 16	+ 91
17	Other capital movements .....	- 189	- 115	- 32	- 94	+ 45
<b>E</b>	<b>Net Capital Movement</b> .....	- 44	- 75	- 17	+ 184	+ 191

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1953 are subject to revision.

1953		1954			Annual Totals			Four Quarters ending Sept. 30, 1954	
III	IV	I	II	III	1951	1952	1953		
(millions of dollars)									
1,077	1,044	873	993	1,006	3,950	4,339	4,152	3,916	A
30	29	35	43	39	150	150	144	146	1
172	47	24	59	167	274	275	302	297	3
24	82	24	33	23	115	145	164	162	4
86	88	68	76	80	351	383	337	312	5
26	23	17	28	26	77	85	92	94	6
95	84	64	75	87	249	281	321	310	7
									11
510	1,397	1,105	1,307	1,428	5,166	5,658	5,512	5,237	12
052	994	923	1,066 <sup>x</sup>	961	4,097	3,850	4,209	3,944	B
124	78	67	98	129	280	341	365	372	1
81	141	88	93	82	450	413	410	404	4
110	94	66	90	95	354	375	382	345	5
25	23	22	23	23	70	94	91	91	6
3	2	4	2	1	9	16	24	9	7
128	116	108	114	115	423	405	470	453	9
									11
523	1,448	1,278	1,486	1,406	5,683	5,494	5,951	5,618	12
25	+ 50	- 50	- 73	+ 45	- 147	+ 489	- 57	- 28	
35	- 99	- 119	- 104	- 22	- 361	- 309	- 358	- 344	
3	- 2	- 4	- 2	- 1	- 9	- 16	- 24	- 9	
13	- 51	- 173	- 179	+ 22	- 517	+ 164	- 439	- 381	C
97	+ 108	+ 75	+ 80	+ 65	+ 309	+ 346	+ 398	+ 328	D
10	- 28	- 10	- 15	- 30	- 20	- 77	- 56	- 83	1
4	- 1	+ 16	+ 22	-	+ 38	- 94	- 31	+ 37	2
15	+ 135	+ 170	+ 80	+ 29	+ 411	+ 316	+ 342	+ 414	3
9	- 17	- 23	- 73	- 45	- 184	- 89	- 142	- 158	4
1	+ 15	+ 4	+ 10	-	+ 15	+ 12	+ 21	+ 29	5
1	- 19	- 2	- 26	- 2	- 3	- 20	- 23	- 49	6
-	-	-	-	-	+ 3	-	+ 1	-	7
-	+ 24	+ 2	+ 11	+ 3	+ 34	+ 33	+ 37	+ 40	8
39	-	+ 7	+ 8	+ 7	+ 34	+ 23	+ 50	+ 22	10
71	- 11	- 15	+ 16	+ 12	- 192	- 66	- 17	+ 2	11
35	- 34	- 4	- 37	- 38	- 56	- 37	+ 38	- 113	14
9	- 121	- 47	+ 103	- 23	+ 128	- 511	- 179	- 88	16
13	+ 51	+ 173	+ 179	- 22	+ 517	- 164	+ 439	+ 381	17
									E

## NOTES:

A minus sign indicates an outflow of capital from Canada.

1,2 Exclusive of undistributed profits.

17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

x Raised significantly by procedural change (see text, Vol. 2, No. 2.)



Summary of Capital Movements

(Millions of dollars)

	<u>Third Quarter</u>		<u>Nine Months</u>	
	<u>1953</u>	<u>1954</u>	<u>1953</u>	<u>1954</u>
Direct investment in Canada	+ 97	+ 65	+ 290	+ 220
Direct investment abroad	- 10	- 30	- 28	- 55
Canadian securities				
Trade in outstanding issues	- 4	-	- 30	+ 38
New issues	+ 15	+ 29	+ 207	+ 279
Retirements	- 9	- 45	- 125	- 141
Foreign securities	-	- 2	+ 3	- 16
Official loan repayments	+ 39	+ 10	+ 63	+ 38
Canadian dollar holdings of foreigners	- 71	+ 12	- 6	+ 13
Official holdings of gold and foreign exchange (increase, -)	- 35	- 38	+ 72	- 79
Other capital movements	- 9	- 23	- 58	+ 33
Net capital movement financing current account balance	+ 13	- 22	+ 388	+ 330

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## DOMINION BUREAU OF STATISTICS

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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FOURTH QUARTER, 1954, AND  
PRELIMINARY ESTIMATES, CALENDAR YEAR 1954

Canada's international transactions in goods and services led to a deficit of \$427 million in 1954, or about the same as the deficit of \$439 million in 1953. During 1954 the commodity trade balance improved by \$66 million. An increase of \$54 million in the deficit on other current transactions, however, primarily because of larger net payments of interest and dividends in the third quarter, offset most of the improvement in the trade balance. The deficits were 8 per cent of total current receipts in both 1953 and 1954.

While the current account deficits were not greatly different in 1953 and 1954, the level of transactions was lower. Current receipts and payments were each reduced by 5 per cent in the year. A greater decline in the volume of commodity imports than of exports offset the effects on the trade balance of a deterioration of some 3 per cent in the terms of trade.

The current account deficits in the first two quarters of 1954 were \$174 million and \$87 million, or about the same as those in the same periods of 1953. Both the balance of trade and of invisibles showed little change in the first half of 1954.<sup>(1)</sup> A small surplus of \$30 million appeared in the third quarter, however, mainly because of an improved commodity trade balance from the period one year earlier. This improvement in the commodity trade balance continued to the fourth quarter of 1954, but was more than offset by a sharp rise in net payments of interest and dividends. The deficit of \$96 million in the fourth quarter of 1954 was \$45 million greater than the same quarter of 1953.

Canada has had current account deficits since 1950, except for a small surplus in 1952. The emergence and continuation of deficits has been closely related to the rapid increase in consumption, investment, and defence expenditures since 1949. Toward the end of 1953, and for part of 1954, some components of these demands levelled out or decreased. The cessation of the previous rapid growth in business inventories was particularly notable. A wide variety of imports increased in 1954 as a result of these changes, although the volume remained high compared with years before the peak in 1953.

Exports were subject to more divergent influences, with varied trends in economic activity in different parts of the world. The recent decline was concentrated in a relatively few products. An important development was the improved world supply position of wheat and coarse grains, which brought a reaction to the unusually large exports of the past few years. From 1953 to 1954, exports of grains and flour fell by \$295 million. This amount, however, was in excess of the decline in total commodity exports. There were setbacks to production in a number of industries in the United States. The decline in exports to the United States was moderate, however, with increases in some

As noted in the second quarter issue of this publication, a change in statistical procedure raised June commodity imports by some \$40 million, and also affected the leads and lags reflected in short-term capital movements.

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products partly offsetting declines in some other exports. Substantial increases in industrial activity in the United Kingdom and many Western European countries led to increased purchases of a number of Canadian exports other than grains. In addition, some overseas restrictions on dollar transactions were eased in this period. The effect of these changes was that the decline in exports and imports was fairly balanced, with that in imports somewhat greater for the year.

While the current deficit was not greatly changed from 1953, the balances by areas were modified, and the bilateral imbalance of the current account was somewhat reduced in 1954. There was a reduction in the deficit with the United States and a smaller surplus with overseas countries as a whole, although the surplus with the United Kingdom rose. In both 1953 and 1954 the proportion of total current receipts and payments accounted for by transactions with the United States was 63 per cent and 73 per cent respectively. Further details on bilateral changes are described under Transactions by Areas.

Canada's current account deficit in 1954, as in 1953, was more than financed by the net inflow of capital from direct investment, portfolio security transactions and amortization of official loans. These movements of a predominantly long-term nature were, however, more than \$100 million smaller than in 1953. Other types of capital movements of a private character, mainly short-term, produced a capital inflow for the year as a whole for the first time since 1950; the balance represented a change of more than \$250 million from 1953. The outflow of capital to finance increased official holdings of gold and foreign exchange amounted to \$124 million in 1954; this contrasted with the inflow of \$38 million which occurred in 1953 when, however, a major transaction of official debt repatriation was financed directly from the reserves.

The Canadian dollar continued to be strong on the exchange market. The price of the United States dollar in Canada fell 25/32 cents from the end of 1953 to 96 19/32 cents at the end of 1954. The trading range of 2.41 cents indicated relative stability in comparison with 3.03 cents in 1953 and 5.25 cents in 1952. Over the year as a whole, the average price of the United States dollar was 97.32 cents, or 1.02 cents lower than for 1953.

The current account deficit which Canada experienced in 1954 added to Canada's net balance of international indebtedness, as did such other factors as the retention in Canada of earnings accruing to non-resident investors. Net indebtedness is now again approaching the level of \$6.5 billion recorded in 1930 but, when viewed in the perspective of the great developments which have occurred in the intervening years, it will be apparent that it represents a relatively much lighter burden than in the earlier period. Long-term investments in Canada by non-residents now have a book value of the order of \$12 billion. Some details of these investments and of Canadian long-term investments abroad, for selected year-ends from 1945 to 1953, appear on the final page of this report. Additional detail of these investments and of other international assets and liabilities will be available in time for publication in "The Canadian Balance of International Payments, 1954, and International Investment Position".

#### Trade balance improved, but trade levels lower

Commodity exports, as adjusted for balance of payments purposes, declined by \$223 million in 1954 to a level of \$3,929 million, while imports fell by \$289 million to \$3,920 million. The trade deficit of \$57 million in 1953 became a surplus of \$9 million in 1954. The decline in total export value reflects a decline of about 3 per cent in both price and volume. The fall in total import value, on the other hand, was due solely to a fall of about 7 per cent in volume. The terms of trade deteriorated by some 3 per cent for the year as a whole.

The decline in exports was concentrated in a relatively small number of products, and the more important declines reflect some reaction to unusually favourable conditions in world markets in recent years. The combination of excellent Canadian crops with inadequate crops in a number of importing and exporting countries, meant world trade in grains and Canada's share in this were both unusually high until well into 1953. The improved world supply position for grains in recent years has been the most important factor reducing Canadian exports since the third quarter of 1953. Reduced activity in some industries in the United States, and restrictions on imports of coarse grains, also reduced Canadian exports. But most exports to the United States were well maintained, and non-grain exports to overseas countries increased, particularly exports of wood products and base metals. For 1954 as a whole, the decline in total exports was mainly confined to grains and flour, motor vehicles, primary iron and steel, and a few defence exports. Increases appeared, however, for newsprint, wood pulp, planks and boards, most base metals, fishery products and chemical products.

The decline in commodity imports in 1954 was somewhat larger than that in exports, and more widespread. The drop in imports was related to a number of factors. The rapid increase

inventories in 1953 necessitated adjustments in some Canadian industries late in 1953 and in 1954, and both domestic production and imports were affected in the process. The fall in Canadian farm income in Canada, which accompanied the drop in grain exports, reduced the demand for imports of agricultural implements. The decline in coal and in petroleum products reflects the growing development and use of Canadian petroleum and water power. Increasing facilities for the production in Canada of other commodities have also been displacing some imports. While consumer expenditures were higher in 1954, the smaller proportion spent on durables decreased some types of imports. Among the larger declines in imports were those in textiles, agricultural implements, automobile parts and coal. Large increases in imports were few, and mainly limited to food products.

Some significant developments for future years began to affect trade in 1954. The first shipments of alumina were received from Jamaica for refining by Canada's expanded aluminum industry. The first shipments of Labrador iron ore occurred, and crude petroleum began to be exported on the Pacific coast.

#### Deficit on invisibles higher

The deficit on invisibles rose by \$54 million to a new peak of \$436 million in 1954, reflecting a smaller decline in payments than in receipts. Higher net payments of interest and dividends were primarily responsible for the increased deficit on invisibles in 1954. The sharply increased deficits on invisibles since 1949 reflect the appearance of deficits on both travel and freight and shipping accounts, and larger net payments for business services. The change in the balance on travel account, from a surplus of \$92 million in 1949 to a deficit of \$80 million in 1954, has been particularly striking. These changes have been superimposed on a continuing substantial deficit on income account.

### Changes in Principal Elements of the Current Account

#### with All Countries in 1954

(Millions of dollars)

	<u>Balance</u>		<u>Change</u>
	1953	1954	in 1954
Commodity trade (adjusted)	- 57	+ 9	+ 66
Gold production available for export	+ 144	+ 155	+ 11
Travel expenditures	- 63	- 80	- 17
Interest and dividends	- 246	- 307	- 61
Freight and shipping	- 45	- 35	+ 10
Heritances and migrants' funds	+ 1	- 2	- 3
Other current transactions	- 173	- 167	+ 6
Current account balance	- 439	- 427	+ 12

Several groups of transactions showed smaller net payments or increased receipts for the year as a whole. Gold production available for export was higher in 1954. The increases were confined to the last three quarters, reflecting the effects of the strike during part of 1953 and early 1954. Freight and shipping receipts and payments were both markedly lower (the latter declining more than the former) primarily as a result of the lower volume of trade and further transfers of funds from Canadian registry. Exports financed by official contributions were smaller in 1954.

But these improvements in the balance on invisibles were more than offset by a larger deficit on travel account and especially on income account. While travel receipts were about the same as in 1953, payments to overseas countries in particular were higher. The sharply increased deficit on income account occurred in the fourth quarter. Lower interest rates have reduced interest receipts, while dividend receipts had been higher in previous years because of transfers of earnings. Interest payments have been rising as a result of large new issues placed abroad in recent years. The increase in dividend payments reflects increased dividend rates by a number of companies, and some transfers of accumulated earnings. The increase of foreign investment in Canada in recent years has not yet been reflected in dividend payments to an important extent, because of such factors as the recency of many of the investments and the retention of funds to expand investment.



## Transactions by Areas

The deficit with the United States was reduced by \$106 million to \$818 million in 1954, while the surplus with overseas countries was reduced by \$94 million to \$391 million. The current surplus with the United Kingdom increased over the relatively small surplus of the previous year, but this change was more than offset by substantial reductions in the surplus with both other sterling area countries and non-sterling overseas countries. Thus the bilateral disequilibrium of the current account was somewhat reduced in 1954, but some broad magnitudes remained in line with those apparent since 1951. The deficit with the United States has been between \$800 - \$950 million in each of the past four years, while the surplus with overseas countries has been between about \$400 - \$500 million (except in 1952).

The decrease in the deficit with the United States was due to a larger fall in imports than in exports. Exports of coarse grains, some base metals, and some primary iron products were lower, but newsprint exports were well maintained at a high level and some other wood products and nickel increased. Imports of a number of iron and steel products were considerably reduced, as well as imports of textiles and coal. But while the commodity balance with the United States improved, the deficit on invisibles increased in 1954. Gold production available for export was higher, and freight payments fell with the decline in import volume. But these improvements were overshadowed by the considerably increased deficit on income account, particularly in the fourth quarter, due to both lower receipts and higher payments of interest and dividends.

The larger current surplus with the United Kingdom reflects mainly an increased trade surplus, although net payments for invisibles declined also. Exports to the United Kingdom were slightly over the 1953 level, in spite of a considerable drop in exports of wheat. There were important increases in exports of wood products, base metals, chemicals, and other materials, in response to strong increases in industrial activity in the United Kingdom. While total exports were stable, imports declined considerably, particularly imports of textiles, automobiles, and other iron products. The smaller deficit on invisibles reflects mainly some large non-recurring defence payments for services in 1953.

## International Transactions with Principal Countries and Areas, 1953 and 1954 (Millions of dollars)

Year	All Countries		United States		United Kingdom		Other Countries	
	1953	1954	1953	1954	1953	1954	1953	1954
Exports (adjusted)	4,152	3,929	2,458	2,356	656	660	1,038	913
Imports (adjusted)	4,209	3,920	3,046	2,799	462	391	701	730
Balance on trade	- 57	+ 9	- 588	- 443	+ 194	+ 269	+ 337	+ 183
Other current receipts	1,360	1,296	985	955	186	171	189	170
Other current payments	1,742	1,732	1,321	1,330	238	210	183	192
Balance on invisibles	- 382	- 436	- 336	- 375	- 52	- 39	+ 6	- 22
Current account balance	- 439	- 427	- 924	- 818	+ 142	+ 230	+ 343	+ 161
<u>Fourth Quarter</u>								
Exports (adjusted)	1,044	1,062	627	621	152	193	265	248
Imports (adjusted)	994	986	704	699	107	92	183	195
Balance on trade	+ 50	+ 76	- 77	- 78	+ 45	+ 101	+ 82	+ 53
Balance on invisibles	- 101	- 172	- 122	- 162	+ 15	+ 4	+ 6	- 14
Current account balance	- 51	- 96	- 199	- 240	+ 60	+ 105	+ 88	+ 39

Exports to other overseas countries as a group fell sharply, while imports increased. A considerable drop in wheat exports was the chief factor in the decline in exports to these countries, although exports of motor vehicles also fell sharply. These declines were only partly offset by increased exports of a number of other products, especially wood and metal products. Most groups of imports were well maintained, and agricultural products and non-metallic minerals in particular were higher. The balance on invisibles deteriorated along with the balance on trade, reflecting particularly a lower level of freight receipts.

#### Capital movements during 1954

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises in 1954 is tentatively placed at \$325 million, or about one-fifth below the rate for 1953. This was the first decline for any year in the post-war period. About one-half of the funds were destined for the petroleum industry, one-fifth for mining, and the balance for manufacturing and other enterprises. Each of these groups of industries received smaller amounts of direct investment capital than in 1953. The inflow from the United Kingdom was at the highest level for any post-war year and exceeded \$50 million; contractions occurred in the net movements both from the United States and from other overseas countries.

Preliminary estimates of the movement of capital from Canada for direct investment abroad indicate a net outflow of \$70 million. About one-half this amount was to the United States, and the balance was to overseas countries, including the United Kingdom. The petroleum industry and associated transportation facilities accounted for nearly one-third of the total. Canadian investment in the beverage industry was of about equal importance, and the remainder of the investment went mainly to other mining and manufacturing enterprises.

Portfolio security transactions between Canada and other countries in 1954 resulted in a sales balance or capital inflow of \$160 million, only slightly lower than the total for 1953. Trade in outstanding Canadian securities led to a net import to Canada of \$55 million of capital. The United Kingdom accounted for \$21 million of the total, and other overseas countries for \$36 million; there was a small net export of capital, or repurchase balance, with the United States. (A significant part of the balance with overseas countries was of a special character, reflecting the temporary employment in government bonds of funds raised in the Canadian capital market by an international institution.) As has been the case each year since 1950, Canada repurchased government bonds but sold securities of Canadian corporations. While the rate of repatriation of government bonds, \$85 million in 1954, was considerably higher than in 1953, there was a marked growth in sales to non-residents of securities of Canadian corporations, including \$121 million of common and preference stocks. It was mainly this development which led to a capital import of \$55 million in 1954 in contrast to an export of \$31 million in 1953. A factor contributing to greatly increased sales of stocks was a change in United States administrative arrangements which facilitated the formation of Canadian diversified management investment companies with important tax advantages to United States investors.

The pattern of trading over 1954, reviewed on a quarterly basis, was one of increasing volume and increasing disparity between the balances on account of transactions in Canadian stocks and in Canadian bonds and debentures. Sales balances on account of trade in common and preference stocks increased in each quarter of 1954. On the other hand, repatriation of bonds and debentures through trade in outstanding issues rose in each of the first three quarters of 1954, if the special investment transactions referred to above are excluded, but fell in the final quarter of the year. As a result of these divergent movements there were net capital inflows in the first and second quarters of 1954; in the third quarter there was virtual balance, and in the final quarter a net inflow of capital again resulted.

The proceeds of new issues of Canadian securities sold to non-residents amounted to \$318 million. These transactions were concentrated in the early part of the year. Retirements of foreign-held Canadian securities are estimated to have been \$192 million in 1954. Transactions in foreign securities were dominated by an issue of \$25 million Canadian currency debentures by the International Bank for Reconstruction and Development, and led to a net outflow of \$21 million.

Both new issues abroad and the trade in outstanding Canadian bonds and debentures appear to have been influenced by a narrowing of the margin between interest rates in Canada and the United States. In the month of December the average differential was at its lowest point in nearly seven years. These and other aspects of international security transactions in 1954 are discussed in greater detail in the DBS report "Sales and Purchases of Securities between Canada and other Countries, December, 1954, and Review of Security Trading during 1954".



Other types of capital movement, with the exception of changes in official holdings of gold and foreign exchange, were inwards on balance in 1954. Repayment of \$72 million was made during the year on Canada's war and post-war loans to other governments. These receipts reduced to \$1,670 million the outstanding balances on Canada's war and post-war loans of \$2,450 million. During 1954 non-residents added \$26 million to their holdings of Canadian dollars following reductions aggregating \$275 million in the years from 1951 to 1953. Other capital movements had reflected very large net capital outflows in the two years preceding 1954, \$511 million in 1952 and \$179 million in 1953. This category covers a diverse range of transactions, but in the main the outflows represented the reversal of heavy short-term inflows which had occurred in 1950 and 1951, and a tendency for Canadians to build up short-term assets abroad. These net outflows did not continue in 1954 and there was on balance a modest inflow of capital.

#### Developments in the fourth quarter

The current account deficit widened in the fourth quarter of 1954, in contrast to the pattern in the first nine months of 1954. The increase of the deficit on income account more than accounted for the increase in the current deficit from the fourth quarter of 1953. Total current receipts attained, and payments exceeded, the levels of the fourth quarter of 1953; while this contrasts with the shortfall of receipts and payments in the first nine months, it should be noted that trade had fallen considerably in the fourth quarter of 1953.

The merchandise trade surplus of the fourth quarter of 1954 was moderately higher than that of the fourth quarter of 1953. On a seasonally adjusted basis, the recent decline in trade was mainly concentrated in the fourth quarter of 1953, with imports experiencing some further declines in the first quarter of 1954. Exports and imports were below the levels of one year earlier in the second and third quarters of 1954, but the seasonally-adjusted movement was moderately upwards. In the fourth quarter of 1954, seasonally-adjusted exports and imports were both at about the level of the third quarter, but moderately higher than their recent lows. A factor which affected both exports and imports in the fourth quarter was the dock strike in the United Kingdom.

While the declines in grains and motor vehicles continued into the fourth quarter when compared to the levels one year earlier, these were more than offset by continued increases in wood products, metals, fishery products and chemical products. Imports of a variety of iron products continued to decline in the fourth quarter, partly offset by increased imports of a number of food and other products.

Almost all of the larger deficit on invisibles from the quarter one year earlier was due to the increase of the deficit on income account by \$60 million to \$119 million. Most of the change was due to a considerable drop in dividend receipts and rise in dividend payments, although the same pattern was evident on interest account also. Gold production available for export was higher, but increased net payments on the other invisible accounts more than offset this change.

The deficit with the United States rose in the fourth quarter of 1954, in contrast to the decline in this deficit in the first nine months and the year. The increased deficit on income account in the fourth quarter, to which reference was made above, was the main factor in this change. Export and import trade with the United States was at about the same levels as in the fourth quarter of 1953. The current surplus with the United Kingdom had increased in the first nine months, both because exports fell more slowly than imports and because there were large non-recurring payments for military services in 1953. In the fourth quarter, the current surplus with the United Kingdom rose appreciably over the levels of one year earlier. Imports continued to fall, but there was a substantial increase in exports over the fourth quarter 1953 levels. The surplus with other overseas countries continued to decline in comparison with the previous year, reflecting the same types of movements as in the nine-months comparison. While exports to these countries continued to fall in the fourth quarter, imports rose, and the deficit balance on invisibles continued.

Inflows of capital to Canada for direct investment are tentatively estimated to have been \$100 million in the final quarter of the year, or about the rate for 1953 taken as a whole. The fourth quarter movement is in contrast to earlier quarters when inflows were considerably smaller, but it includes several transactions of a non-recurring nature which are sufficiently large to account for the increase. Outflows of capital from Canada for direct investment abroad were of the order of \$15 million in the last quarter of 1954.

Portfolio security transactions led to a net capital outflow of \$14 million. There was a net inflow of \$17 million from trade in outstanding Canadian issues, reflecting net sales of \$47 million of stocks, offset by net repurchases of \$30 million of bonds and debentures. The proceeds of new Canadian issues sold abroad amounted to \$25 million, and retirements to \$51 million. Transactions in foreign securities led to an outflow of \$5 million.

During the fourth quarter there were the usual heavy repayments to Canada on official war and post-war loans to other governments; these receipts totalled \$34 million. Non-residents increased their holdings of Canadian funds by \$18 million. There was a capital outflow of \$45 million to finance increased official holdings of gold and foreign exchange, and all other capital movements led to a net capital inflow of \$18 million.

Summary of Capital Movements

1952 - 1954

(Millions of dollars)

	1952	1953	1954	Change 1954 from 1953
Direct investment in Canada	+ 346	+ 398	+ 325	- 73
Direct investment abroad	- 77	- 56	- 70	- 14
Canadian securities				
Trade in outstanding stocks	+ 72	+ 21	+ 121	+ 100
Trade in outstanding bonds	- 166	- 52	- 66	- 14
New issues	+ 316	+ 342	+ 318	- 24
Retirements	- 89	- 142	- 192	- 50
Foreign securities	- 8	- 1	- 21	- 20
Official loan repayments	+ 56	+ 87	+ 72	- 15
Canadian dollar holdings of foreigners	- 66	- 17	+ 26	+ 43
Official holdings of gold and foreign exchange (increase, -)	- 37	+ 38	- 124	- 162
Other capital movements	- 511	- 179	+ 38	+ 217
Net capital movement financing current account balance	- 164	+ 439	+ 427	- 12



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1954 are preliminary and

		1952		1953		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,049	1,156	918	1,113	1,077
3	Gold production available for export .....	37	37	48	37	30
4	Travel expenditures .....	156	42	26	57	172
5	Interest and dividends .....	23	73	26	32	24
6	Freight and shipping.....	98	103	71	92	86
7	Inheritances and immigrants' funds .....	22	19	16	27	26
11	All other current receipts .....	67	89	69	73	95
12	<b>Total Current Receipts.....</b>	<b>1,452</b>	<b>1,519</b>	<b>1,174</b>	<b>1,431</b>	<b>1,510</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	937	1,038	1,002	1,161	1,052
4	Travel expenditures .....	110	71	68	95	124
5	Interest and dividends .....	95	148	86	102	81
6	Freight and shipping.....	105	107	70	108	110
7	Inheritances and emigrants' funds .....	24	25	21	22	25
9	Official contributions .....	-	5	10	9	3
11	All other current payments.....	106	108	101	125	128
12	<b>Total Current Payments .....</b>	<b>1,377</b>	<b>1,502</b>	<b>1,358</b>	<b>1,622</b>	<b>1,523</b>
	Balance on Merchandise Trade .....	+ 112	+ 118	- 84	- 48	+ 25
	Balance on Other Transactions, excluding B 9 .....	- 37	- 96	- 90	- 134	- 35
	Official Contributions.....	-	- 5	- 10	- 9	- 3
<b>C</b>	<b>Current Account Balance .....</b>	<b>+ 75</b>	<b>+ 17</b>	<b>- 184</b>	<b>- 191</b>	<b>- 13</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 106	+ 91	+ 103	+ 90	+ 97
2	Direct investment abroad .....	- 19	- 28	- 8	- 10	- 10
	Canadian Securities					
3	Trade in outstanding issues .....	- 51	- 24	+ 10	- 36	- 4
4	New issues.....	+ 23	+ 46	+ 132	+ 60	+ 15
5	Retirements .....	- 7	- 29	- 28	- 88	- 9
	Foreign Securities					
6	Trade in outstanding issues .....	+ 3	-	+ 2	+ 3	+ 1
7	New issues.....	-	-	- 1	- 2	- 1
8	Retirements .....	-	-	+ 1	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	-	+ 24	+ 2	+ 11	-
11	Repayment of war loans.....	+ 8	+ 7	+ 4	+ 7	+ 39
14	Change in Canadian dollar holdings of foreigners .....	+ 2	- 68	+ 45	+ 20	- 71
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 25	- 4	+ 16	+ 91	- 35
17	Other capital movements .....	- 115	- 32	- 94	+ 45	- 9
<b>E</b>	<b>Net Capital Movement.....</b>	<b>- 75</b>	<b>- 17</b>	<b>+ 184</b>	<b>+ 191</b>	<b>+ 13</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

- A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.
- A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income and insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1953 are subject to revision.

1953	1954				Annual Totals				
IV	I	II	III	IV	1951	1952	1953	1954	
(millions of dollars)									
1,044	872	993	1,002	1,062	3,950	4,339	4,152	3,929	A
29	35	43	39	38	150	150	144	155	1
47	24	59	170	47	274	275	302	300	3
82	23	32	22	59	115	145	164	136	4
88	68	76	82	80	351	383	337	306	5
23	17	28	25	21	77	85	92	91	6
84	63	73	84	88	249	281	321	308	7
									11
1,397	1,102	1,304	1,424	1,395	5,166	5,658	5,512	5,225	12
994	923	1,068 <sup>x</sup>	943	986	4,097	3,850	4,209	3,920	B
78	66	98	131	85	280	341	365	380	1
141	88	95	82	178	450	413	410	443	4
94	66	90	97	88	354	375	382	341	5
23	21	23	23	26	70	94	91	93	6
2	4	2	1	3	9	16	24	10	7
116	108	115	117	125	423	405	470	465	9
									11
1,448	1,276	1,491	1,394	1,491	5,683	5,494	5,951	5,652	12
+ 50	- 51	- 75	+ 59	+ 76	- 147	+ 489	- 57	+ 9	
- 99	- 119	- 110	- 28	- 169	- 361	- 309	- 358	- 426	
- 2	- 4	- 2	- 1	- 3	- 9	- 16	- 24	- 10	
- 51	- 174	- 187	+ 30	- 96	- 517	+ 164	- 439	- 427	C
									D
+ 108	+ 80	+ 80	+ 65	+ 100	+ 309	+ 346	+ 398	+ 325	1
- 28	- 10	- 15	- 30	- 15	- 20	- 77	- 56	- 70	2
- 1	+ 16	+ 22	-	+ 17	+ 38	- 94	- 31	+ 55	3
+ 135	+ 170	+ 86	+ 37	+ 25	+ 411	+ 316	+ 342	+ 318	4
- 17	- 24	- 73	- 44	- 51	- 184	- 89	- 142	- 192	5
+ 15	+ 4	+ 10	-	- 5	+ 15	+ 12	+ 21	+ 9	6
- 19	- 2	- 26	- 2	- 2	- 3	- 20	- 23	- 32	7
-	-	-	-	+ 2	+ 3	-	+ 1	+ 2	8
+ 24	+ 2	+ 11	+ 3	+ 26	+ 34	+ 33	+ 37	+ 42	10
-	+ 7	+ 8	+ 7	+ 8	+ 34	+ 23	+ 50	+ 30	11
- 11	- 16	+ 14	+ 10	+ 18	- 192	- 66	- 17	+ 26	14
- 34	- 4	- 37	- 38	- 45	- 56	- 37	+ 38	- 124	16
- 121	- 49	+ 107	- 38	+ 18	+ 128	- 511	- 179	+ 38	17
+ 51	+ 174	+ 187	- 30	+ 96	+ 517	- 164	+ 439	+ 427	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

x Raised significantly by procedural change (see text, Vol. 2, No. 2.)



Selected Statistics of Canada's International Investment Position

1945 - 1953  
(Millions of dollars)

	1945	1947	1949 <sup>(1)</sup>	1951	1952	1953
<b>FOREIGN LONG-TERM INVESTMENTS</b>						
<b>IN CANADA OWNED BY:</b>						
<b>ALL NON-RESIDENTS</b>						
Direct investments	2,713	2,986	3,586	4,521	5,224	5,977
Government and municipal bonds	1,662	1,528	1,755	2,103	2,026	2,085
Other portfolio investments	2,433	2,384	2,317	2,519	2,685	2,894
Miscellaneous investments	284	290	302	328	447 <sup>(2)</sup>	466
<b>TOTAL</b>	<b>7,092</b>	<b>7,188</b>	<b>7,960</b>	<b>9,471</b>	<b>10,382</b>	<b>11,422</b>
<b>RESIDENTS OF THE UNITED STATES<sup>(3)</sup></b>						
Direct investments	2,304	2,548	3,095	3,897	4,536	5,180
Government and municipal bonds	1,450	1,387	1,534	1,898	1,833	1,868
Other portfolio investments	1,106	1,110	1,106	1,269	1,382	1,534
Miscellaneous investments	130	155	170	195	249 <sup>(2)</sup>	256
<b>TOTAL</b>	<b>4,990</b>	<b>5,200</b>	<b>5,905</b>	<b>7,259</b>	<b>8,000</b>	<b>8,838</b>
<b>RESIDENTS OF THE UNITED KINGDOM<sup>(3)</sup></b>						
Direct investments	348	372	428	497	544	611
Government and municipal bonds	157	90	171	146	136	150
Other portfolio investments	1,160	1,113	1,049	1,068	1,090	1,128
Miscellaneous investments	85	70	67	65	114 <sup>(2)</sup>	116
<b>TOTAL</b>	<b>1,750</b>	<b>1,645</b>	<b>1,715</b>	<b>1,776</b>	<b>1,884</b>	<b>2,005</b>
<b>RESIDENTS OF ALL OTHER COUNTRIES</b>						
Direct investments	61	66	63	127	144	186
Government and municipal bonds	55	51	50	59	57	67
Other portfolio investments	167	161	162	182	213	232
Miscellaneous investments	69	65	65	68	84 <sup>(2)</sup>	94
<b>TOTAL</b>	<b>352</b>	<b>343</b>	<b>340</b>	<b>436</b>	<b>498</b>	<b>579</b>
<b>CANADIAN LONG-TERM INVESTMENTS<sup>(4)</sup> IN</b>						
<b>ALL FOREIGN COUNTRIES</b>						
Direct investments	720	822	926	1,166	1,271	1,507
Portfolio investments	621	579	638	609	830 <sup>(2)</sup>	842
Government of Canada credits	707	1,816	2,000	1,922	1,866	1,778
<b>TOTAL</b>	<b>2,048</b>	<b>3,217</b>	<b>3,564</b>	<b>3,697</b>	<b>3,967</b>	<b>4,127</b>
<b>UNITED STATES</b>						
Direct investments	455	531	721	912	968	1,147
Portfolio investments	409	366	443	376	536 <sup>(2)</sup>	537
<b>TOTAL</b>	<b>864</b>	<b>897</b>	<b>1,164</b>	<b>1,288</b>	<b>1,504</b>	<b>1,684</b>
<b>UNITED KINGDOM</b>						
Direct investments	54	64	59	74	81	104
Portfolio investments	53	52	40	34	31	29
Government of Canada credits	561	1,331	1,434	1,394	1,357	1,292
<b>TOTAL</b>	<b>668</b>	<b>1,447</b>	<b>1,533</b>	<b>1,502</b>	<b>1,469</b>	<b>1,425</b>
<b>ALL OTHER COUNTRIES</b>						
Direct investments	211	227	146	180	222	256
Portfolio investments	159	161	155	199	263	276
Government of Canada credits	146	485	566	528	509	486
<b>TOTAL</b>	<b>516</b>	<b>873</b>	<b>867</b>	<b>907</b>	<b>994</b>	<b>1,018</b>

Notes: Data represent book values. As the fiscal year-ends of some corporations do not correspond with the calendar year, comparisons of year to year changes with balance of payments data should be made with caution. The estimates are also affected by reclassifications between direct and portfolio series and by accounting adjustments in the basic data. Figures for 1953 are subject to revision.

- (1) Prior to 1949 Newfoundland was classified as an "other country".
- (2) New series not strictly comparable with earlier years.
- (3) Including some investments held as nominees for other countries.
- (4) Excluding investments of insurance companies and banks, and subscriptions by the Government of Canada to the IMF and IBRD, but including the equity of non-residents in assets abroad of Canadian companies.







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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FIRST QUARTER, 1955

Canada's transactions in goods and services with other countries led to a deficit of \$157 million in the first quarter of 1955, compared with a deficit of \$176 million in the first quarter of 1954. Both merchandise exports and imports exceeded the levels of one year earlier. The increase in exports was considerably larger than that in imports, however, so that the commodity trade deficit of \$51 million in the first quarter of 1954 changed to a surplus of \$8 million in the first quarter of 1955. Two-thirds of this improvement in the trade balance, however, was offset by an increase of \$40 million in the deficit on invisibles, mainly because of sharply increased dividend payments. A substantial increase in the current surplus with the United Kingdom offset the effects on the current balance of an enlarged deficit with the United States and a decreased surplus with other overseas countries in the first quarter of 1955 compared to the same period of 1954.

Unlike the experience in most of 1954, the levels of both merchandise trade and other current transactions in the first quarter of 1955 were considerably over the levels of a year earlier. The decline in exports of grains, and economic readjustments in a number of Canadian industries, had reduced export and import levels late in 1953. The balanced but moderate decline in both merchandise trade and invisibles led to current deficits of \$176 million and \$189 million in the first two quarters of 1954, which were not greatly changed from those of the same periods of 1953. The trade surpluses in the second half of 1954 exceeded those of the same period of 1953, but a sharp increase in net payments of interest and dividends in the fourth quarter of 1954 offset these changes. As a result of these opposite changes, the current deficits in the last half of 1953 and 1954 were almost unchanged at \$63 million and \$66 million respectively.

During the last half of 1954 the recessionary forces in Canada and the United States were increasingly offset by expansionary forces, and marked increases in economic activity occurred in both countries early in 1955. At the same time, economic activity in the United Kingdom and other west European countries has continued at high levels. The levels of current receipts and payments have responded strongly to these changes. Export and import volume in the first quarter of 1955 exceeded the levels of one year earlier by 12 per cent and 6 per cent respectively. Current receipts and payments were also higher, particularly the latter.

Commodity trade higher in value and volume

Sharply higher purchases by the United Kingdom were a leading factor increasing exports in the first quarter of 1955. Exports of grains to the United Kingdom rose markedly over the levels of the first quarter of 1954, while the demand for Canadian raw materials also increased in the buoyant United Kingdom economy. The effects of economic recovery in the United States were apparent in the increase of number of exports to that market, but the proportionate gains were generally less than in the case of the rise to the United Kingdom. The more moderate increase in imports was spread more evenly throughout the various groups of products.

In the first quarter of 1955 the value of exports and imports, as adjusted for balance of payments purposes, exceeded the first quarter of 1954 by \$96 million and \$37 million respectively. Export and import volume rose by 12 per cent and 6 per cent respectively. Price changes were slight when compared to the levels of the first quarter of 1954, although a further moderate deterioration in the terms of trade appears to have occurred.

Exports to the United Kingdom rose by over one-third, while those to the United States and other countries rose by 7 per cent and 5 per cent respectively. Exports were higher to both the other sterling area countries and western Europe, but lower to other overseas countries as a group. Imports

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503-509-35

from the United Kingdom fell by almost 10 per cent, but those from the United States and other countries increased. The trade surplus with the United Kingdom rose sharply, while the trade balances with the United States and other countries were virtually unchanged.

The strongest export increases over the first quarter of 1954 occurred in wood products, non-ferrous metals, and chemicals. Among these groups, there were increases in such important exports as planks and boards, newsprint, wood pulp, all the major base metals, fertilizers, and other chemical products. In addition, exports of wheat and automobiles, which had been responsible for so much of the decline in 1954, were also higher. Exports of all grains and wheat flour were up only moderately, because of the decline in exports of flour.

Almost all groups of imports showed moderate increases over the levels one year earlier. Most imports of foodstuffs continued the gains of 1954. Textiles and products, imports of which had been greatly reduced in 1954, rose considerably as a group. Changes in the largest group, iron and steel products, were mixed. Imports of rolling mill products and some types of machinery were lower, but imports of most items in this group (particularly automobiles) were higher; the group as a whole rose moderately. There were striking increases in imports of electrical apparatus and aircraft, and small declines in coal and crude petroleum.

#### Increased deficit on invisibles

In the fourth quarter of 1954 the deficit on invisibles had widened over that of the previous year and offset the improvement in the trade balance. A similar pattern appeared in the first quarter of 1955 compared to the first quarter of 1954, with the increase of \$40 million in the deficit on invisibles offsetting two-thirds of the improvement in the trade balance. In each case the income account contributed most to this change.

There were some moderate increases in non-merchandise receipts, especially freight and miscellaneous receipts, but these were much more than offset by a considerable increase in dividend payments. In addition, travel expenditures and military service expenditures rose well over the levels one year earlier. The increase in net income payments of \$29 million was virtually all due to higher dividend payments to parent companies abroad, with the other components of this account showing little change. Travel payments rose by \$11 million over the first quarter of 1954, while receipts increased only slightly.

#### Transactions by areas

In 1954 the current account deficit with the United States had been reduced and the surplus with the United Kingdom had increased, but a sharp fall in the surplus with other overseas countries offset these changes. In the first quarter of 1955, compared to the same quarter of 1954, the deficit with the United States widened by \$26 million to \$263 million and the surplus with overseas countries other than the United Kingdom fell by \$12 million to \$25 million; both these changes primarily reflect enlarged deficits on non-merchandise transactions. By contrast, the current surplus with the United Kingdom rose by \$57 million to \$81 million, because of an enlarged merchandise trade surplus.

The export and import trade with the United States increased by about the same amount in each case, so that the deficit on this trade was virtually unchanged. Exports of wood products, base metals, and chemicals to the United States exceeded the levels of one year earlier, but exports of agricultural products continued to fall. Almost all groups of imports from the United States showed gains, with one exception occurring in non-metallic minerals. The increased deficit on invisibles with the United States was equal to the increased payments of dividends to that country. Travel expenditures were also considerably higher, but increases in gold production available for export and some other current receipts offset this change.

The substantial rise in exports to the United Kingdom, along with lower imports, sharply raised the trade surplus over that of the first quarter of 1954. The largest export increases were in grains, while a number of other agricultural exports to the United Kingdom were also higher. Exports of planks and boards, newsprint, and most base metals were also higher. Most import groups were slightly higher, but iron and steel imports declined sharply. The deficit on invisibles with the United Kingdom was almost unchanged, with higher military service payments offset by increased freight and other receipts.

There was a balanced expansion in export and import trade with other overseas countries as a whole, leaving the trade surplus with this group of countries at about the figure for the first quarter of 1954. The trade surplus with both the other sterling area and other OEEC countries was enlarged as exports rose more rapidly than imports, but a sharp decline in exports to Japan led to a deficit in trade with the remaining overseas countries. Increased military service payments to European countries were primarily responsible for the enlarged deficit on invisibles with these countries as a whole.



## Capital movements

Gross direct investment inflows continued to be large in the first quarter of 1955, although below the record level established in the previous quarter. The liquidation of important investments, however, reduced the net inflow. Security transactions led to a relatively small inflow because heavy repatriation of bonds and debentures offset large net sales of stocks. There was a small inflow from the amortisation of loans to overseas governments. The net movement from these transactions in long-term assets and liabilities was not sufficient to meet Canada's current account deficit in the quarter. A relatively large inflow of capital occurred from increased holdings by non-residents of Canadian dollars and from a reduction of official holdings of gold and foreign exchange, but there were outflows on account of all other capital movements reflecting mainly the transfer of Canadian short-term funds to the London money market. On the exchange market, the noon-average price of the United States dollar in Canadian funds was 97.60 cents, compared with 96.90 cents in the fourth quarter of 1954. The United States dollar weakened slightly in January but strengthened considerably in both February and March, in terms of Canadian funds.

Although gross inflows of capital for direct investment in foreign-controlled enterprises in Canada continued to be high during the first quarter of 1955, net inflows are tentatively estimated at \$75 million. With the exception of the third quarter of 1954, this is the lowest quarterly level of net transfers recorded since early 1952, and represents a decline of more than 40 per cent from the last quarter of 1954 when inflows were at a record level. The figures give effect, however, to the withdrawal from Canada of the proceeds of the liquidation of a major investment. Had it not been for the transactions in connection with this development, the inflow for the quarter would have been above the rate for last year as a whole. Mining and petroleum investment continued to be heavy with considerable overseas participation. Flows of Canadian capital for direct investment abroad appear to have been smaller than usual and are tentatively placed at about \$5 million.

Transactions in Canadian portfolio securities led to a small capital inflow of \$4 million, following outflows in the last two quarters of 1954. Trade in outstanding Canadian issues led to an outflow of \$20 million, after four successive quarters of inflow. This outflow occurred despite the fact that there were net sales of Canadian stocks aggregating nearly \$52 million. United States residents added \$36 million to their holdings of stocks, United Kingdom \$10 million, and other overseas countries \$6 million. Repatriation through trading of nearly \$74 million of outstanding Canadian bonds and debentures, mainly held in the United States, was also at a record level. Transactions in other types of Canadian securities accounted for a small inflow. The trading in bonds reflected net repurchases of \$45 million Government of Canada direct and guaranteed issues, \$27 million provincial and municipal, and \$2 million corporation bonds. The trading and retirements of Government of Canada direct issues reduced total non-resident holdings well below \$600 million, to about half the total held at the end of 1950.

Proceeds of new Canadian securities sold abroad totalled \$105 million. This amount is remarkably large in view of the prevailing narrow differential in interest rates. Although there were several municipal issues of significant size placed abroad, the larger part of the total is attributable to the acquisition by non-residents of new stock offered to shareholders by Canadian companies, and to institutional purchases of new domestic issues, principally of corporations. Retirements of foreign-held debt, amounting to \$81 million, were also at a high level. The major transaction represented official repatriation of debt by the Government; there were also heavy retirements on the maturity of issues sold abroad many years ago.

Transactions in bonds and debentures undoubtedly reflect the existence of a relatively narrow differential between interest rates in Canada and in the United States. Yields on representative Canadian and United States Government issues maturing in 1968 were 2.81 per cent and 2.72 per cent respectively at the end of March. The differential of 9 base points or less than one-tenth of one percentage point is in sharp contrast to the differential of 40 base points at the end of 1954 and of more than 90 base points earlier in that year. The narrow margin is an influence discouraging the assumption of exchange risks involved in issues abroad, and encouraging their elimination through refunding in the Canadian market. It is of course also a powerful force in the movement of outstanding issues across the border.

Transactions in foreign securities led to a net capital inflow of \$9 million, reflecting mainly net sales of outstanding issues, chiefly United States stocks, in the amount of \$12 million.

Among other types of capital movements classified separately in Canadian balance of payments statements were inflows of \$7 million representing principal repaid on outstanding loans to foreign governments, and \$36 million covering increased holdings of Canadian dollars by non-residents. A capital inflow of \$71 million resulted from reductions in official holdings of gold and foreign exchange; a substantial part of this decline was related to official debt repatriation.

All other capital movements resulted in a net capital outflow of \$40 million in the first quarter of 1955. A leading influence on this figure was the movement of short-term funds to the United Kingdom for interest arbitrage. During March, 3 Month Treasury Bills were selling in the United Kingdom to yield an average of about 3.80 per cent; in Canada the rates averaged about 1.13 per cent. The average noon discount on 90 day forward sterling in Canada was 1 cent or about 0.36 per cent. The net theoretical advantage, before commissions, of employing Canadian funds in the London market was consequently of the order of  $1\frac{1}{4}$  per cent per annum.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1955 are preliminary and

		1 9 5 2		1 9 5 3		
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,156	918	1,113	1,077	1,044
3	Gold production available for export .....	37	48	37	30	29
4	Travel expenditures .....	42	26	57	172	47
5	Interest and dividends .....	73	27	33	24	81
6	Freight and shipping.....	103	66	86	81	85
7	Inheritances and immigrants' funds .....	19	16	26	26	23
11	All other current receipts .....	89	69	73	94	83
12	<b>Total Current Receipts</b> .....	1,519	1,170	1,425	1,504	1,392
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,038	1,002	1,161	1,053	994
4	Travel expenditures .....	71	68	95	124	78
5	Interest and dividends .....	148	86	102	83	133
6	Freight and shipping.....	107	69	106	107	92
7	Inheritances and emigrants' funds .....	25	21	22	23	25
9	Official contributions .....	5	10	10	3	2
11	All other current payments.....	108	100	123	126	116
12	<b>Total Current Payments</b> .....	1,502	1,356	1,619	1,519	1,440
	Balance on Merchandise Trade .....	+ 118	- 84	- 48	+ 24	+ 50
	Balance on Other Transactions, excluding B 9 .....	- 96	- 92	- 136	- 36	- 96
	Official Contributions.....	- 5	- 10	- 10	- 3	- 2
<b>C</b>	<b>Current Account Balance</b> .....	+ 17	- 186	- 194	- 15	- 48
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 91	+ 109	+ 97	+ 106	+ 114
2	Direct investment abroad .....	- 28	- 11	- 10	- 11	- 31
	Canadian Securities					
3	Trade in outstanding issues .....	- 24	+ 10	- 35	- 5	- 1
4	New issues.....	+ 46	+ 129	+ 60	+ 14	+ 132
5	Retirements .....	- 29	- 29	- 89	- 9	- 19
	Foreign Securities					
6	Trade in outstanding issues .....	-	+ 2	+ 3	+ 2	+ 15
7	New issues.....	-	- 1	- 2	- 1	- 19
8	Retirements .....	-	+ 1	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 24	+ 2	+ 11	-	+ 24
11	Repayment of war loans.....	+ 7	+ 4	+ 7	+ 39	-
14	Change in Canadian dollar holdings of foreigners....	- 68	+ 44	+ 20	- 71	- 11
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 4	+ 16	+ 91	- 35	- 34
17	Other capital movements .....	- 32	- 90	+ 41	- 14	- 122
<b>E</b>	<b>Net Capital Movement</b> .....	- 17	+ 186	+ 194	+ 15	+ 48

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income  
B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

Data for 1954 are subject to revision.

1954				1955		Annual Totals		Four Quarters ending March 31, 1955	
I	II	III	IV	I	1952	1953	1954		
(millions of dollars)									
872	993	1,002	1,062	968	4,339	4,152	3,929	4,025	A
35	43	39	38	38	150	144	155	158	1
24	59	170	49	26	275	302	302	304	3
24	33	23	63	23	145	165	143	142	4
70	78	82	79	77	383	318	309	316	5
18	28	24	19	17	85	91	89	88	6
64	72	81	81	73	281	319	298	307	7
1,107	1,306	1,421	1,391	1,222	5,658	5,491	5,225	5,340	11
									12
923	1,068 <sup>x</sup>	941	984	960	3,850	4,210	3,916	3,953	B
66	98	131	87	77	341	365	382	393	1
89	95	86	161	117	413	404	431	459	4
70	93	99	93	74	375	374	355	359	5
21	23	25	25	22	94	91	94	95	6
4	2	2	3	5	16	25	11	12	7
110	116	117	124	124	405	465	467	481	9
1,283	1,495	1,401	1,477	1,379	5,494	5,934	5,656	5,752	11
									12
- 51	- 75	+ 61	+ 78	+ 8	+ 489	- 58	+ 13	+ 72	
121	- 112	- 39	- 161	- 160	- 309	- 360	- 433	- 472	
- 4	- 2	- 2	- 3	- 5	- 16	- 25	- 11	- 12	
- 176	- 189	+ 20	- 86	- 157	+ 164	- 443	- 431	- 412	C
+ 83	+ 88	+ 67	+ 138	+ 75	+ 346	+ 426	+ 376	+ 368	D
- 9	- 18	- 28	- 19	- 5	- 77	- 63	- 74	- 70	1
+ 16	+ 21	+ 1	+ 17	- 20	- 94	- 31	+ 55	+ 19	2
+ 174	+ 93	+ 35	+ 24	+ 105	+ 316	+ 335	+ 326	+ 257	3
- 25	- 75	- 48	- 54	- 81	- 89	- 146	- 202	- 258	4
+ 4	+ 9	- 1	- 5	+ 12	+ 12	+ 22	+ 7	+ 15	5
- 2	- 26	- 3	- 2	- 4	- 20	- 23	- 33	- 35	6
-	-	-	+ 2	+ 1	-	+ 1	+ 2	+ 3	7
+ 2	+ 11	+ 3	+ 26	-	+ 33	+ 37	+ 42	+ 40	8
+ 7	+ 8	+ 7	+ 8	+ 7	+ 23	+ 50	+ 30	+ 30	10
- 18	+ 13	+ 10	+ 17	+ 36	- 66	- 18	+ 22	+ 76	11
- 4	- 37	- 38	- 45	+ 71	- 37	+ 38	- 124	- 49	14
- 52	+ 102	- 25	- 21	- 40	- 511	- 185	+ 4	+ 16	16
+ 176	+ 189	- 20	+ 86	+ 157	- 164	+ 443	+ 431	- 412	17
									E

NOTES:  
A minus sign indicates an outflow of capital from Canada.  
2 Exclusive of undistributed profits.

7 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

Raised significantly by procedural change (see text, Vol. 2, No. 2.)

Current Transactions with Principal Countries  
and Areas, First Quarter 1954 and 1955

<u>First Quarter</u>	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1954	1955	1954	1955	1954	1955	1954	1955
	(Millions of dollars)							
Exports (adjusted)	872	968	543	581	134	183	195	204
Imports (adjusted)	923	960	679	713	96	87	148	160
Balance on trade	- 51	+ 8	-136	-132	+ 38	+ 96	+ 47	+ 44
Other current receipts	235	254	164	178	32	37	39	39
Other current payments	360	419	265	309	46	52	49	58
Balance on invisibles	-125	-165	-101	-131	- 14	- 15	- 10	- 19
Current account balance	-176	-157	-237	-263	+ 24	+ 81	+ 37	+ 25







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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
SECOND QUARTER 1955

Canada's transactions in goods and services with other countries resulted in a deficit of \$320 million in the first half of 1955, compared with a deficit of \$365 million in the same period of 1954. The current deficit of \$162 million in the second quarter of 1955 was about the same as that of \$158 million in the first quarter, while both were lower than the current deficits in the comparable quarters of 1953 and 1954. Merchandise exports rose more rapidly than imports from the first half of 1954 to the first half of 1955, with the result that the deficit on trade was reduced by \$92 million to \$34 million. About half of this improvement was offset by an increase of \$47 million to \$286 million in the deficit on invisibles, an increase due mainly to larger net payments on the income and travel accounts. In both the first and second quarters of 1955, relative to the same quarters of 1954, the striking increase in the current surplus with the United Kingdom more than offset the widening of the deficit with the United States and the smaller surplus with other countries.

In evaluating the change in the current deficit from the first half of 1954 to the first half of 1955, two special factors should be noted. A change in statistical procedure raised the import figure for June, 1954 by some \$40 million. Furthermore, there were special non-recurring receipts arising from settlements on defence account of some \$30 million in the second quarter of 1955, most of which was treated as an offset to merchandise imports.

The capital movements which on balance financed Canada's current account deficit of \$320 million in the first half of 1955 were to a considerable extent short-term in nature. While direct investment inflows continued to be substantially inward and there were significant inflows for equity investment of a portfolio nature, there was a heavy outflow of capital as the result of repatriation of Canadian bonds and debentures. A substantial growth in holdings of Canadian dollars by non-residents and other changes in Canada's short-term assets and liabilities abroad financed two-thirds of the net current account deficit in the six-month period. There were marked differences in these short-term movements within the half year. Particularly noteworthy was a substantial movement of interest arbitrage funds to London in the first quarter, a considerable part of which returned in the second. Official holdings of gold and foreign exchange, on the other hand, were reduced sharply in the first quarter, but grew in the second.

Throughout the second quarter of the year the value of the Canadian dollar on the world exchange markets remained remarkably stable. The price of the United States dollar in Canada varied by only 0.78 cents. The average price during the quarter was 98.54 cents. These rates are in contrast to the first quarter during which the United States dollar strengthened from 96.59 to 98.28 cents, and was traded within a range of 2.59 cents at an average of 97.60 cents.

In contrast to most of 1954, total transactions in both merchandise trade and other current receipts in the first half of 1955 have considerably exceeded those of one year earlier. The levels of both merchandise trade and invisibles declined late in 1953 and in the first half of 1954, primarily because of the decline in exports of grains and economic adjustments in a number of Canadian industries. The declines in current receipts and payments in the first half of 1954 were balanced, so that the quarterly deficits of \$176 million and \$189 million in this period were not greatly changed from those of the same period of 1953. By the fourth quarter of 1954, current receipts and payments had ceased to fall below the levels of one year earlier. The merchandise trade surpluses of the second half of 1954 exceeded those of the same period of 1953, but a sharp increase in net payments of interest and dividends offset these changes. The result was that the current account deficits in the last half of 1953 and of 1954 were almost unchanged at \$63 million and \$66 million respectively.

The expansion in economic activity in Canada and the United States has been marked in the first half of 1955, while the high levels of economic activity in the United Kingdom and other West European

Prepared in the Balance of Payments Section, International Trade Division.

503-509-65



countries have continued. In consequence, Canada's international current receipts and payments have considerably exceeded those of the first half of 1954. In the first and second quarters of 1955 export volume exceeded that of the same quarters of 1954 by 12 per cent and 8 per cent respectively, while import volume rose by 6 per cent and 8 per cent in the same comparison. The terms of trade improved moderately in the second quarter of 1955 relative to the same quarter of 1954, the first such improvement in the past two years. As in the last half of 1954, however, the effect on the current account deficit of the more rapid increase in exports than in imports was partly offset by the more rapid increase in other current payments than in other current receipts.

#### Commodity trade higher in value and volume

The increase in exports and imports reflects a variety of influences. Exports of commodities other than grains rose to a new peak in the first half of the year, while total exports exceeded the first half of both 1953 and 1954. The major factor contributing to this has been the continued expansion of economic activity in the United Kingdom and the sharp recovery of activity in the United States, with strong resulting demands for Canadian raw materials in particular. The existence of new productive capacity in Canadian export industries is making possible some of the rise in industrial materials. Other overseas countries as a group have also increased their purchases of wood products and base metals. While the United Kingdom has also substantially increased purchases of wheat and barley following reductions of stocks in that country, exports of such products to the United States and some overseas countries have fallen. Imports have responded to the renewed expansion in several sectors of the Canadian economy, and were not greatly below the peak levels of 1953 in the first half of the year. Manufacturing production has expanded rapidly in recent months, particularly in the case of durables which had declined in 1954. Personal expenditure has continued at high levels. The cessation of growth in business inventories in 1954, which played an important part in the decline of imports in that year, has given way to some accumulation recently.

Adjusted merchandise exports rose by \$200 million in the first half of 1955 relative to the first half of 1954. The increase was not widely different in the first and second quarters. Adjusted imports exceeded the first half of 1954 by \$108 million; \$70 million of this increase occurred in the second quarter of 1955. The latter increase would have been doubled had it not been for the two special factors noted earlier. Export prices rose moderately from the second quarter of 1954 to that of 1955, while import prices were unchanged. The resulting improvement in the terms of trade was the first in such quarter to quarter comparisons in some time. As already noted above, the increase in export volume has exceeded that in import volume.

The increase in exports in the first half of 1955 was almost wholly accounted for by increase in exports to the United States and the United Kingdom. The absolute increase to the United Kingdom was more than that to the United States, while the relative increase was considerably greater. By contrast, imports from the United Kingdom declined in both the first and second quarters while those from the United States and other countries rose. The decline from the United Kingdom was concentrated in June, when the effect of strikes in that country interrupted trade. Compared to the first half of 1954, the deficit in merchandise trade with the United States has remained unchanged, while the sharp increase in the trade surplus with the United Kingdom has much more than offset the decline in the trade surplus with other overseas countries.

The strongest increases in exports, both in the second quarter and first half of 1955 relative to the same periods of 1954, were in wood products, non-ferrous metals, non-metallic minerals, and chemical products. More than three-quarters of the total increase in exports was in the first two groups noted above, which accounted for somewhat over half of total exports in the first half of 1954. Agricultural products, animal products and miscellaneous commodities were each lower in the second quarter of 1955 compared to the same quarter of 1954.

Exports of planks and boards continued to rise very sharply, as in the first quarter of 1955. The major base metals, except lead, also rose in both quarters. Reflecting the operation of relatively new sources of production, exports of iron ore, petroleum and chemicals rose considerably in the second quarter over the levels a year earlier. Exports of wheat, however, were virtually unchanged in the half yearly comparison, a decrease in the second quarter offsetting an increase in the first. Such major exports as other grains, flour, fish and products, and farm machinery and implements were lower in the first half year.

Imports in the first half of 1955 were approaching the peak levels of the first half of 1953. Several of the major import groups, in fact, had considerably exceeded the levels of the first half of 1953. The most notable exception was the iron and steel group, particularly because of a sharp decline in imports of a number of farm implement and machinery items since the first half of 1953.

Compared to the levels of the first half of 1954, the increase in imports in 1955 was widespread. All nine import groups increased in both the second quarter and the first half of 1955 compared to the same periods of 1954. The increases in the half yearly comparison were usually broadly spread

within the various groups of imports, with some notable exceptions such as the declines in imports of coffee and wool products. In the iron and products group, however, some major items such as rolling mill products and some types of farm and non-farm machinery have shown moderate declines; these have been more than offset by increased imports of automobiles and parts particularly and many other industrial materials.

#### Deficit on invisibles higher in half year

Net payments for current account invisibles in the first half of 1955 were \$286 million. This was \$47 million greater than in the first half of 1954, and considerably in excess of any half year period since the war. Most of this increase in the deficit occurred in the first quarter of 1955, when dividend payments rose sharply; in the second quarter of 1955 the deficit on invisibles was \$8 million greater than in the same quarter of 1954. In both quarters the levels of receipts and payments for non-merchandise transactions were considerably higher than the levels of a year ago.

In three major non-merchandise accounts, the direction of change in the first quarter was continued into the second. In both quarters travel expenditures abroad rose far more than did travel receipts, relative to the levels one year earlier, so that the deficit on this account rose by \$22 million in the half year. The levels of both receipts and payments on travel account were substantially higher than in any earlier first half year. In both quarters receipts of interest and dividends were virtually the same as in the same quarters of 1954. Payments of interest have also stabilized, with substantial retirements and repurchases of outstanding bonds offsetting the effect of new issues. In contrast to the stability of these items, however, dividend payments rose sharply in the first quarter of 1955 and more moderately in the second, widening the deficit on income account in each case. Freight and shipping receipts and payments have risen in both quarters of 1955, primarily reflecting higher levels of trade. In this case receipts have risen more rapidly, and the balances have improved.

In the other non-merchandise accounts, the changes have been small or offsetting. Gold production available for export was almost unchanged in the half year period. The number of immigrants has fallen below the levels of the same period of 1954 but, in response to an easing of restrictions on transfers, funds transferred by immigrants have been maintained. Miscellaneous receipts have continued to rise in the second quarter, while payments were unchanged from the level one year earlier. The stability in the latter is probably temporary, reflecting a special offset to payments to allow for a non-recurring defence receipt.

#### Current Transactions with Principal Countries and Areas, 1954 and 1955

(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1954	1955	1954	1955	1954	1955	1954	1955
<u>Second Quarter</u>								
Exports (adjusted)	993	1,098	595	647	153	201	245	250
Imports (adjusted)	1,068	1,138	767	823	110	99	191	216
Balance on trade	- 75	- 40	- 172	- 176	+ 43	+ 102	+ 54	+ 34
Balance on invisibles	- 114	- 122	- 109	- 114	- 12	- 1	+ 7	- 7
Current account balance	- 189	- 162	- 281	- 290	+ 31	+ 101	+ 61	+ 27
<u>January to June</u>								
Exports (adjusted)	1,865	2,065	1,138	1,227	287	384	440	454
Imports (adjusted)	1,991	2,099	1,446	1,536	206	187	339	376
Balance on trade	- 126	- 34	- 308	- 309	+ 81	+ 197	+ 101	+ 78
Other current receipts	548	594	381	416	72	86	95	92
Other current payments	787	880	591	662	98	100	98	118
Balance on invisibles	- 239	- 286	- 210	- 246	- 26	- 14	- 3	- 26
Current account balance	- 365	- 320	- 518	- 555	+ 55	+ 183	+ 98	+ 52



### Transactions by areas

In both the first and second quarters of 1955, relative to the same quarters of 1954, the current account deficit with the United States increased and the surplus with overseas countries other than the United Kingdom declined. In both quarters, however, the increased current surplus with the United Kingdom more than offset these changes.

The increase in adjusted exports and imports with the United States was balanced, with the result that the deficit on trade was almost unchanged in both the second quarter and half yearly comparisons. The deficit on invisibles rose sharply in the first quarter as dividend payments increased rapidly, but the increase in this deficit was slight in the second quarter. Exports to the United States in the first six months of 1955 were considerably higher in the case of most wood products, base metals, asbestos, chemicals, and other industrial materials, but lower in the case of grains. The increase in imports has been widespread.

The sharp increase in exports to the United Kingdom in the first half of 1955 has affected every major group of exports except animal products. About two-thirds of the increase was in agricultural products, particularly wheat and barley. The decline in total imports was concentrated in June, when shipments were interrupted by strikes in the United Kingdom. Earlier in the year, declines were mainly in automobiles and other iron products. Imports of other groups of commodities were generally higher before the strikes than in 1954. The elimination of the deficit on other current transactions in the second quarter reflects both a special non-recurring defence receipt and increased freight receipts.

The moderate nature of the export recovery to other overseas countries in the first half of 1955 conceals a varying pattern by area and by commodity. Exports were higher to other sterling area countries and Western Europe, but lower to other overseas countries because of a sharp drop in exports to Brazil and Japan. While a number of these overseas countries increased their purchases of wood products and base metals, purchases of grains declined - mainly because of lower sales to the two markets just noted. Imports have been rising from these overseas countries, however. The reduced trade surplus in the first half of 1955 has been accompanied by a relatively large increase in net payments for invisibles, primarily because of increased military service expenditures.

### Capital movements

It is only under the most extraordinary conditions that the international flows of capital in any period may be ascribed to a single set of dominant forces. The capital movements which, on balance, financed Canada's current account deficit in the second quarter of 1955 were the result of a particularly diverse group of influences not all of which may yet be fully evaluated. Net inflows of capital for direct investment were somewhat higher than in the first quarter when repatriation offset an important part of the gross inflows. Security transactions, on the other hand, led to a substantial net outflow arising from a divergent series of movements. After taking into account also repayments of principal on Canada's loans to overseas governments, transactions in these particular long-term assets and liabilities produced only \$26 million, equivalent to about one-sixth of the current deficit. The balance was covered by changes in Canada's short-term assets and liabilities abroad. Among these were a sharp increase in Canadian dollar holdings by foreigners, and the repatriation from London of a substantial volume of interest arbitrage funds. In the opposite direction was a capital outflow to finance increased official holdings of gold and foreign exchange. Also included was the balancing item which in contrast to most quarters of recent years reflected large capital receipts.

Capital continued to flow into Canada for direct investment in foreign-controlled enterprises. Gross inflows were not quite as large as in the first quarter but the absence of important repatriation led to a somewhat larger net inflow, tentatively placed at \$85 million. The inflow for resource development accounted for about eight-tenths of this amount, but was not as large as in the first quarter; capital received by the petroleum industry rose sharply but not sufficiently to offset the effect of non-recurring receipts in the first quarter by other mining enterprises. About nine-tenths of the net inflow was from the United States in contrast to the preceding quarter when about one-half of the movement was from overseas countries. The net outflow of capital for direct investment abroad was greater than in the first quarter and is tentatively placed at \$10 million.

Transactions in Canadian portfolio securities led to a net capital outflow of \$42 million. This relatively large balance conceals the existence of net sales to non-residents of some \$58 million of outstanding issues of Canadian stocks. This inflow, which exceeded the previous record of \$51 million established in the preceding quarter, includes purchases of Canadian stocks by United States investment funds organized in 1954 and 1955. The share of non-residents in gross sales on the principal exchanges in Canada has continued to be about one-fifth. While stock prices in both Canada and the United States have risen greatly, their course has been roughly parallel. Repatriation of foreign capital through Canadian repurchases of outstanding bonds and debentures continued to be important. Although the net movement was some \$33 million smaller than in the first quarter, it offset all but \$9 million of the receipts from the sales of stock. The total of \$49 million includes net repurchases of issues of each of the debtor classifications for which the Bureau has trading data. Undoubtedly a significant factor in the repatriation was the existence of a relatively narrow margin between interest rates in Canada and the United States. As an



illustration, on several occasions, the spread between yields on comparable government issues maturing in 1968 fell to about one-twentieth of one per cent. Proceeds of new Canadian issues sold abroad during the second quarter totalled only \$18 million; about two-thirds of this amount covered the participation of non-residents in new issues of Canadian stocks. Retirements of foreign-held debt amounted to about \$69 million, much of it representing maturity of funded debt of the national railway system.

Transactions in foreign securities led to a net capital outflow of \$25 million. This included net purchases of \$8 million of outstanding foreign issues, taking the form, on balance, of United Kingdom stocks. These transactions represented the first significant outflow of capital from Canada for portfolio investment in long-term British securities since the war. During the second quarter of the year, Canadians also purchased a number of new issues of foreign securities, leading to a capital outflow of \$17 million. The largest part of this movement reflected the sale in Canada of a \$15 million issue of debentures by the International Bank for Reconstruction and Development.

Canada received principal payments of \$18 million on war and post-war loans to overseas countries. The receipts during the second quarter reduced the total outstanding to about \$1,680 million, compared with \$2,000 million at the end of 1949. There was also an inflow of capital from changes in Canadian dollar holdings of foreigners. These rose by \$38 million in the second quarter, following four previous quarters of increase aggregating \$70 million. The net growth in the quarter was in holdings of United States residents and a significant part of the total represents balances and temporary investments held for the account of investment funds. There was a considerable decline of balances held for United Kingdom residents, roughly offsetting an equivalent increase in the first quarter of the year. Residents of other overseas countries increased their Canadian dollar holdings during the quarter sufficiently to offset the British reduction.

There was an outflow of \$56 million to finance increased holdings of gold and foreign exchange. By the end of June, official holdings of gold and United States dollars amounted to U.S. \$1,930.4 million, some \$12.2 million below the record month-end holdings reported at the end of 1954.

As has been the case in the second quarter of the two preceding years, there was an abrupt change in the balance of "other capital movements". In the second quarter of 1955, an inflow of \$154 million is shown for this group of transactions, in contrast to an outflow of \$23 million for the first quarter. The largest identified element of the movement in the second quarter was a return of interest arbitrage funds from London. Between December 1954 and March 1955, the combined effect of the differential between treasury bill yields in the United Kingdom and North America, and the cost of forward exchange protection, made attractive the employment in the London market of short-term funds from Canada and the United States. It is estimated that by the end of March, apart from the employment of funds by the banking system, Canadians were holding some \$75 million of these interest arbitrage investments. During the second quarter, although the yield on United Kingdom treasury bills rose somewhat, the cost of exchange protection on swap transactions rose more rapidly, and at the same time the yields on Canadian treasury bills improved. As a consequence, the attraction for Canadians of the London money market weakened, and it is estimated that by the end of June somewhat more than \$25 million of the holdings had been repatriated. Preliminary evidence indicates that there was also a reduction of other holdings of sterling by Canadians. Another substantial inflow included under "other capital movements" was a growth in Canadian dollar holdings of international financial institutions. But when account is taken of these movements, and of a number of smaller transactions of which there is direct evidence, there remains at the present time a large indicated inflow as the balancing item for the second quarter. It is not yet possible to evaluate the significance of this item which covers, inter alia, changes in international open account commercial indebtedness and private holdings of exchange of which only fragmentary data are yet available. For some years now the balancing item in the second quarter has been on the receipts side indicating capital inflows. Any seasonal characteristic towards an inflow would no doubt be reinforced by the heavy growth which occurred in Canadian imports during this period, as a result of which a growth in Canada's outstanding international payables might normally be expected.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1955 are preliminary and

		1 9 5 3				1 9 5 4
		I	II	III	IV	I
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	918	1,113	1,077	1,044	872
3	Gold production available for export .....	48	37	30	29	35
4	Travel expenditures .....	26	57	172	47	24
5	Interest and dividends .....	27	33	24	81	24
6	Freight and shipping.....	66	86	81	85	70
7	Inheritances and immigrants' funds .....	16	26	26	23	18
11	All other current receipts .....	69	73	94	83	64
12	<b>Total Current Receipts.....</b>	<b>1,170</b>	<b>1,425</b>	<b>1,504</b>	<b>1,392</b>	<b>1,107</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,002	1,161	1,053	994	923
4	Travel expenditures .....	68	95	124	78	66
5	Interest and dividends .....	86	102	83	133	89
6	Freight and shipping.....	69	106	107	92	70
7	Inheritances and emigrants' funds .....	21	22	23	25	21
9	Official contributions .....	10	10	3	2	4
11	All other current payments.....	100	123	126	116	110
12	<b>Total Current Payments .....</b>	<b>1,356</b>	<b>1,619</b>	<b>1,519</b>	<b>1,440</b>	<b>1,283</b>
	Balance on Merchandise Trade .....	- 84	- 48	+ 24	+ 50	- 51
	Balance on Other Transactions, excluding B 9 .....	- 92	- 136	- 36	- 96	- 121
	Official Contributions.....	- 10	- 10	- 3	- 2	- 4
<b>C</b>	<b>Current Account Balance .....</b>	<b>- 186</b>	<b>- 194</b>	<b>- 15</b>	<b>- 48</b>	<b>- 176</b>
<b>D</b>	<b>Capital Account</b>					
	<b>Direct Investment</b>					
1	Direct investment in Canada .....	+ 109	+ 97	+ 106	+ 114	+ 83
2	Direct investment abroad .....	- 11	- 10	- 11	- 31	- 9
	<b>Canadian Securities</b>					
3	Trade in outstanding issues .....	+ 10	- 35	- 5	- 1	+ 16
4	New issues.....	+ 129	+ 60	+ 14	+ 132	+ 174
5	Retirements .....	- 29	- 89	- 9	- 19	- 25
	<b>Foreign Securities</b>					
6	Trade in outstanding issues .....	+ 2	+ 3	+ 2	+ 15	+ 4
7	New issues.....	- 1	- 2	- 1	- 19	- 2
8	Retirements .....	+ 1	-	-	-	-
	<b>Loans by Government of Canada</b>					
10	Repayment of post-war loans .....	+ 2	+ 11	-	+ 24	+ 2
11	Repayment of war loans.....	+ 4	+ 7	+ 39	-	+ 7
14	Change in Canadian dollar holdings of foreigners....	+ 44	+ 20	- 71	- 11	- 18
16	Change in official holdings of gold and foreign exchange (increase, minus).....	+ 16	+ 91	- 35	- 34	- 4
17	Other capital movements .....	- 90	+ 41	- 14	- 122	- 52
<b>E</b>	<b>Net Capital Movement.....</b>	<b>+ 186</b>	<b>+ 194</b>	<b>+ 15</b>	<b>+ 48</b>	<b>+ 176</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# ALANCE OF INTERNATIONAL PAYMENTS

ata for 1954are subject to revision.

1 9 5 4			1 9 5 5		Annual Totals			Four Quarters ending June 30, 1955	
II	III	IV	I	II	1952	1953	1954		
(millions of dollars)									
993	1,002	1,062	967	1,098	4,339	4,152	3,929	4,129	A
43	39	38	38	39	150	144	155	154	
59	170	49	26	66	275	302	302	311	
33	23	63	25	34	145	165	143	145	
78	82	79	77	89	383	318	309	327	
28	24	19	16	29	85	91	89	88	
72	81	81	75	80	281	319	298	317	
,306	1,421	1,391	1,224	1,435	5,658	5,491	5,225	5,471	12
,068 <sup>x</sup>	941	984	961	1,138	3,850	4,210	3,916	4,024	B
98	131	87	77	118	341	365	382	413	
95	86	161	120	100	413	404	431	467	
93	99	93	74	98	375	374	355	364	
23	25	25	22	23	94	91	94	95	
2	2	3	5	4	16	25	11	14	
116	117	124	123	116	405	465	467	480	
,495	1,401	1,477	1,382	1,597	5,494	5,934	5,656	5,857	12
75	+ 61	+ 78	+ 6	- 40	+ 489	- 58	+ 13	+ 105	C
112	- 39	- 161	- 159	- 118	- 309	- 360	- 433	- 477	
2	- 2	- 3	- 5	- 4	- 16	- 25	- 11	- 14	
189	+ 20	- 86	- 158	- 162	+ 164	- 443	- 431	- 386	
88	+ 67	+ 138	+ 75	+ 85	+ 346	+ 426	+ 376	+ 365	D
18	- 28	- 19	- 5	- 10	- 77	- 63	- 74	- 62	
21	+ 1	+ 17	- 31	+ 9	- 94	- 31	+ 55	- 4	
93	+ 35	+ 24	+ 107	+ 18	+ 316	+ 335	+ 326	+ 184	
75	- 48	- 54	- 84	- 69	- 89	- 146	- 202	- 255	
9	- 1	- 5	+ 13	- 8	+ 12	+ 22	+ 7	- 1	
26	- 3	- 2	- 5	- 17	- 20	- 23	- 33	- 27	
-	-	+ 2	+ 3	-	-	+ 1	+ 2	+ 5	8
11	+ 3	+ 26	-	+ 10	+ 33	+ 37	+ 42	+ 39	10
8	+ 7	+ 8	+ 7	+ 8	+ 23	+ 50	+ 30	+ 30	11
13	+ 10	+ 17	+ 30	+ 38	- 66	- 18	+ 22	+ 95	14
37	- 38	- 45	+ 71	- 56	- 37	+ 38	- 124	- 68	16
102	- 25	- 21	- 23	+ 154	- 511	- 185	+ 4	+ 85	17
189	- 20	+ 86	+ 158	+ 162	- 164	+ 443	+ 431	+ 386	E

TES:

A minus sign indicates an outflow of capital from Canada.

2 Exclusive of undistributed profits.

7 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

Raised significantly by procedural change (see text, Vol. 2, No. 2.).



Summary of Capital Movements

	Third Quarter 1954	Fourth Quarter 1954	First Quarter 1955	Second Quarter 1955	First Half 1954	Second Half 1954	First Half 1955
	(Millions of dollars)						
Direct investment in Canada	+ 67	+ 138	+ 75	+ 85	+ 171	+ 205	+ 160
Direct investment abroad	- 28	- 19	- 5	- 10	- 27	- 47	- 15
Canadian securities							
Trade in outstanding stocks	+ 32	+ 47	+ 51	+ 58	+ 42	+ 79	+ 109
Trade in outstanding bonds	- 31	- 30	- 82	- 49	- 5	- 61	- 131
New issues	+ 35	+ 24	+ 107	+ 18	+ 267	+ 59	+ 125
Retirements	- 48	- 54	- 84	- 69	- 100	- 102	- 153
Foreign securities	- 4	- 5	+ 11	- 25	- 15	- 9	- 14
Official loan repayments	+ 10	+ 34	+ 7	+ 18	+ 28	+ 44	+ 25
Canadian dollar holdings of foreigners	+ 10	+ 17	+ 30	+ 38	- 5	+ 27	+ 68
Official holdings of gold and foreign exchange (increase, -)	- 38	- 45	+ 71	- 56	- 41	- 83	+ 15
Other capital movements	- 25	- 21	- 23	+ 154	+ 50	- 46	+ 131
Net capital movement financing current account deficit	- 20	+ 86	+ 158	+ 162	+ 365	+ 66	+ 320

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UNIVERSITY OF TORONTO



DEPT. OF POLITICAL ECONOMY

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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
THIRD QUARTER 1955

In the third quarter of 1955 there was a deficit of \$89 million in Canada's current account of goods and services with other countries. This excess of expenditures on imported goods and services over exports contrasted with a current account surplus of \$20 million in the same period of 1954. The deficit in the third quarter was larger than in any earlier similar quarter, a period when current receipts were unusually large. New record levels for any quarter were reached by both total current receipts and total current expenditures as Canada's current account reflected the effects of the coincidence of unusually heavy United States and overseas demands for Canadian products and new high levels of Canadian economic activity.

Contributing to the change from the previous year were an import balance on commodity account in contrast to an export balance in the third quarter of 1954, and an enlarged deficit from all other current transactions and official contributions. The change in the balance on commodity account from the second to the third quarter this year was less pronounced than usual. Consequently the reduction in the current account deficit in the third quarter from the levels of the two earlier quarters in the year was appreciably less than in recent years.

The change in the trade balance in the third quarter occurred in a period when a significant improvement had taken place in Canada's terms of trade in relation to last year. Mainly due to a rise in export prices the terms of trade had improved by some 3% from the third quarter of last year.

In the first three quarters of 1955 the deficit of \$406 million compares with \$345 million in the same period of 1954. The principal rise has been in the deficit from current transactions other than commodity trade. In both years the deficit on commodity account made up about the same amount but this stability is partly the result of a change in statistical procedure with respect to imports which affected the figures in June 1954. When allowance is made for the effect of this change on the commodity balance in 1954 an increased deficit on commodity trade is indicated.

Although the current account deficit was the largest ever recorded for the third quarter, there was no serious problem involved in financing it. Net capital inflows for long-term direct investment in foreign-owned enterprises in Canada and in Canadian-owned enterprises abroad amounted to \$65 million, a moderate reduction from the \$75 million recorded for the second quarter, but on the other hand the outflow from transactions in all portfolio securities amounted to only \$5 million in contrast to the \$68 million outflow which occurred in the second quarter. Taking into account also principal repayments received on Canada's loans to overseas governments, transactions in the particular long-term assets and liabilities already mentioned led to net capital inflows of \$69 million and \$25 million in the third and second quarters respectively. Thus these capital transactions left only \$20 million of the current account deficit to be financed by other movements in the third quarter, in sharp contrast to the \$137 million remaining in the second quarter.

Strong demands for commodity exports and imports

The trends and pattern of trade in the third quarter were generally a continuation of those evident in the earlier part of the year, although in a somewhat more pronounced form. The predominant feature was a continuation of the coincidence of strong demands for both exports and imports. As a result exports and imports in the third quarter each rose to new peaks in value and volume for the period from

Prepared in the Balance of Payments Section, International Trade Division.  
503-509-95

the levels of the second quarter as adjusted for use in the balance of payments statement. This contrasts with the usual seasonal trends in trade when exports and imports in the third quarter are at a lower level than in the second quarter. As the rate of growth in imports has been recently increasing there was an import balance on commodity account for the third quarter of about the same size as in the second quarter in contrast to the more normal trend towards reduction in this period.

The increased strength of Canadian demands for imports in the third quarter was generally distributed over most groups of commodities. Rises in consumers' and producers' goods, raw materials, and finished products were all evidence of the breadth of the demands suggesting that high levels of Canadian consumption and investment are the underlying sources of the strong demands. As well as the high level of imports of industrial machinery and equipment there have been indications of some rises in business inventories in Canada in contrast to some contraction in the same period of 1954. In the first nine months of 1955 imports rose 11% in value and somewhat more in volume as import prices have been slightly lower. This contrasts with the decline of almost 10% in the value of Canadian imports in the same period of 1954. Canadian manufacturing production, which uses many imported materials and components, has also fluctuated in the same direction as imports in both periods, but with a lower rate of change in the periods as a whole. Likewise the rate of change in imports has much exceeded the relative rise in Canadian incomes. In the third quarter the rate of rise in imports from the previous year of over 23% was even greater than in the earlier part of the year.

In the third quarter the rise over the previous year was more generally distributed among imports from the main sources than was the case in the first three quarters as a whole. There were substantial rates of increase in imports from each of the United States, United Kingdom, Rest of the Sterling area and Other Countries in the third quarter. This contrasts with the first nine months totals when there was a small reduction in imports from the United Kingdom. The rise in imports from the latter country in the third quarter appears to have been influenced by the end of the strikes interrupting British trade in the second quarter.

Canadian exports of merchandise were also subject to unusually strong demands in the third quarter, and new industrial and mining capacity becoming available this year added to the supply. High levels of economic activity abroad particularly in the United States and Western Europe have created strong demands for industrial and construction materials exported from Canada. The gains in these groups of commodities were large enough to establish a new record for the value of Canadian exports for the third quarter which has only been slightly exceeded several times in the seasonally high fourth quarter. The increase in the value of all exports in the third quarter was some 13 percent compared with a rise of over 11 percent in the first three quarters as a whole. The increases in volume have been a little less than this as export prices have been slightly higher this year.

The major part of the increase in exports in the quarter was made up of metals and minerals. Prominent among these were iron ore and crude petroleum with new production and export outlets. But substantial increases were also general in steel, non-ferrous metals and other minerals. The remainder of the increase in the quarter was distributed among forest products, chemicals and some manufactured goods. Exports of fish remained stable but a relatively small reduction occurred in sales of farm products, chiefly grains.

In the first nine months the broad pattern of exports was not greatly different from the third quarter. The main exception was that a relatively larger portion of the increase in exports in the longer period was in forest products, and declines in many secondary manufacturing products in the nine months contrast with some rises in the third quarter.

More than one-half of the gain in the third quarter over the previous year was in shipments to the United States. But the rate of increase to the United States was not quite as high as the rate to overseas countries. Exports to overseas countries were generally substantial in amount and more widely distributed than earlier in the year and the rate of increase was especially high for exports to the rest of the Sterling area.

In the first three quarters of 1955 the actual increase was fairly evenly divided between exports to the United States and to overseas countries. Most of the increase overseas was to the United Kingdom and the rest of the Sterling area. Exports to all other overseas countries showed virtually no change in total, although there were shifts in destinations with more exported to Europe and most Latin American countries and less to large individual markets like Brazil and Japan. In the nine months the rate of increase in exports to the United States was some 9% compared to about 14% to overseas countries as a whole. Rates of increase to the United Kingdom and the rest of the Sterling area were even larger, being 25% and 30% respectively.

As a result of the above shifts in the currents of trade there was a sharp widening in the deficit on commodity account with the United States in the third quarter compared with the previous year. This more than exceeded the gain in the balance of exports with overseas countries. Consequently there was a deficit on commodity account between Canada and all countries of \$33 million in the third quarter of 1955 compared with an export surplus of \$61 million in the same period in 1954.



# Deficit from invisibles continues to grow

The deficit of current account "invisibles" of \$56 million in the third quarter was again large, comparing with \$41 million for the corresponding quarter last year. The deficit was considerably less than in either of the first two quarters because of a customary seasonal pattern mainly associated with the international tourist trade in the summer months. In the period of the first nine months the cumulative deficit of \$334 million this year compares with \$280 million last year and is at a new high level for this period of the year.

A variety of offsetting trends occurred in the quarter compared with the previous year in the various exchanges of services and there was a predominant growth in both receipts from non-residents for services furnished by Canadians and in expenditures by Canadians on services supplied by non-residents. The trend in international travel expenditures compared with the previous year was one leading factor in the changes. Even though receipts from non-resident visitors in Canada of \$179 million in the third quarter were higher than ever before, the balance of receipts on travel account in that period was less than in the previous year because of the larger rise in Canadian travel expenditures both in the United States and overseas countries. Another element in the larger deficit was the rise in deliveries of goods being financed in Canada's contribution to the Colombo Plan which rose to \$7 million. The deficit on income account was less than in any quarter in more than a year although it continued to be the main contributor to the deficit on invisibles in both the quarter and the nine months. The reason for the change from the corresponding quarter of last year was a sharp rise in receipts of dividends. Total payments at the same time were higher this year as dividends were again significantly larger although payments of interest have fallen off as a result of retirements and other repatriations of bonds. The deficit on freight and shipping transactions was also somewhat less mainly because of larger inland freight earnings on commodities exported from Canada.

## Transactions by areas

The trend in the geographical distribution of Canada's current transactions this year has been in the direction of an increased deficit with the United States, a much enlarged surplus with the United Kingdom, and a smaller surplus with all other overseas countries. The increase in the surplus with the United Kingdom has been sufficient to increase the surplus with all overseas countries except in the third quarter.

### Summary of Current Transactions with the United States, United Kingdom, and Other Countries

(Millions of dollars)

	All Countries		United States		United Kingdom		Other Countries	
	1954	1955	1954	1955	1954	1955	1954	1955
<u>Third Quarter</u>								
Exports (adjusted)	1,002	1,127	597	671	180	199	225	257
Imports (adjusted)	941	1,160	654	828	93	107	194	225
Balance on trade	+ 61	- 33	- 57	- 157	+ 87	+ 92	+ 31	+ 32
Balance on invisibles	- 41	- 56	- 1	- 8	- 19	- 18	- 21	- 30
Current account balance	+ 20	- 89	- 58	- 165	+ 68	+ 74	+ 10	+ 2
<u>January to September</u>								
Exports (adjusted)	2,867	3,192	1,735	1,898	467	583	665	711
Imports (adjusted)	2,932	3,264	2,100	2,369	299	294	533	601
Balance on trade	- 65	- 72	- 365	- 471	+ 168	+ 289	+ 132	+ 110
Other current receipts	967	1,057	723	792	112	128	132	137
Other current payments	1,247	1,391	934	1,036	157	162	156	193
Balance on invisibles	- 280	- 334	- 211	- 244	- 45	- 34	- 24	- 56
Current account balance	- 345	- 406	- 576	- 715	+ 123	+ 255	+ 108	+ 54

In the third quarter the increase in the deficit with the United States over the previous year was more than was the case in earlier quarters. In the same period a small rise in the surplus with the United Kingdom was not sufficient to offset a slight drop in the surplus with other overseas countries.

The widening in the import balance with the United States was the reason for the sharp rise in current deficit with the United States in the third quarter compared with a year earlier. The growth in Canadian imports from that country was much more than in exports. All other current transactions with the United States were mostly offsetting in the quarter and there was little change in balance from the previous year. The sharp drop in the deficit from non-merchandise transactions in the second quarter was mainly seasonal.

The reduced surplus with the United Kingdom compared with the second quarter partly reflects the effects of the termination of strikes in that country which impeded shipments to Canada in the second quarter. Canadian expenditures on travel in the United Kingdom have also been rising and in the second quarter there were special receipts on defence account which did not recur in the third.

The current surplus with the rest of the Sterling area was larger in both the third quarter and the nine months than in the corresponding periods last year.

Throughout the third quarter of 1955 the Canadian dollar remained relatively stable on the world exchange markets. As in the second quarter the price of the United States dollar in Canada varied by only 0.78 cents. The average price during the quarter was 98.58 cents, or 0.04 cents higher than in the second quarter. The closing price of 99 cents was the high for the quarter and also higher than for any date since August 1953.

#### Capital movements

The net inflow during the third quarter of foreign capital for direct investment in Canadian enterprises is tentatively estimated at \$80 million. More than half this amount represented inflows to the petroleum industry. Manufacturing industries were the next largest group and accounted for about a third of the total. About seven-eighths of the net movement was from the United States. The inflow for the third quarter was at the same rate as prevailed during the first half of 1955 and the net movement in the nine months was about \$240 million. This was about the same total as for the first nine months of 1954; it should be noted that the final quarter of 1954 was marked by extraordinarily large transfers which brought the annual total to \$376 million. Petroleum and mining accounted for about eighty per cent of the net inflow for the first three quarters of 1955, and manufacturing for a further ten per cent. The balance of resources went mainly into real estate and merchandising firms. Some three-quarters of the net inflow was from the United States; about three-quarters of the remainder came from the United Kingdom and the balance from other overseas countries.

Transactions in Canadian portfolio securities led to a net capital outflow of \$19 million, down sharply from the outflow of \$44 million recorded in the second quarter. New issues and retirements were both relatively light and resulted, on balance, in a capital inflow of \$3 million. Net sales of outstanding Canadian stocks produced \$25 million, a significantly large figure but well below the record of \$58 million established in the second quarter. Repatriation of foreign capital through Canadian repurchases of outstanding bonds and debentures totalling \$47 million was smaller than in either the first or second quarter but continued to be of major importance. Nearly half this outflow covered the repurchase of issues of provincial governments. During the quarter the differential between interest rates in Canada and the United States began to increase and in September for the first time in more than a year there were net sales of outstanding Canadian bonds and debentures to non-residents.

In contrast to the outward movements of capital arising from transactions in Canadian securities, there was a net inflow from transactions in foreign securities. Canadians sold stocks of United States corporations but continued to add modestly to holdings of stocks in the United Kingdom through the purchase of outstanding issues. Canadians also acquired \$4 million of foreign new issues during the quarter. These included an issue sold in Canada by a United States corporation, as well as participation by Canadian residents both in issues offered to shareholders by non-Canadian corporations and in general offerings. Retirements of Canadian-owned foreign securities totalled \$14 million, the largest part of which covered the retirement of a Canadian dollar issue of the International Bank for Reconstruction and Development. The net inflow from all transactions in foreign securities of \$14 million compared with an outflow of \$24 million in the preceding quarter, when, however, the International Bank was a borrower in Canada.

For the nine months transactions in all portfolio securities, Canadian and foreign, led to a net outflow of capital amounting to \$69 million. This compared with an inflow of \$173 million in the same period of 1954 and of \$155 million for the year as a whole.

Principal payments received on Canada's war and post-war loans to overseas countries amounted to \$9 million, bringing the total for nine months to \$34 million. There was an outflow of

capital arising from a reduction of \$18 million in holdings of Canadian dollars by non-residents other than international institutions (changes in whose holdings are included in other capital movements). A large part of this reduction reflected the use of holdings accumulated in Canada during the second quarter by United States investment funds. In the nine months as a whole non-residents have added \$50 million to their holdings of Canadian dollars. The net movement of capital arising from changes in official holdings of gold and foreign exchange during the third quarter was small, amounting to an outflow of \$7 million, and reducing the nine-month movement to a net inflow of \$8 million.

All other capital movements resulted on balance in a net inflow of \$45 million. This was approximately the amount covering the return of capital placed in the United Kingdom on an interest arbitrage basis in earlier quarters. These funds had been largely repatriated by the end of September when holdings were placed at less than \$5 million. Other major elements in this item included a reduction in holdings of Canadian dollars by an international institution offset in part by borrowings by Canadian finance companies.

### Summary of Capital Movements

(Millions of dollars)

	Fourth Quarter 1954	First Quarter 1955	Second Quarter 1955	Third Quarter 1955	Nine Months 1953	Nine Months 1954	Nine Months 1955
Direct investment in Canada	+ 138	+ 75	+ 85	+ 80	+ 312	+ 238	+ 240
Direct investment abroad	- 19	- 5	- 10	- 15	- 32	- 55	- 30
Canadian securities							
Trade in outstanding stocks	+ 47	+ 51	+ 58	+ 25	+ 27	+ 74	+ 134
Trade in outstanding bonds	- 30	- 82	- 51	- 47	- 57	- 36	- 180
New issues	+ 24	+ 108	+ 19	+ 14	+ 203	+ 302	+ 141
Retirements	- 54	- 84	- 70	- 11	- 127	- 148	- 165
Foreign securities	- 5	+ 11	- 24	+ 14	+ 4	- 19	+ 1
Official loan repayments	+ 34	+ 7	+ 18	+ 9	+ 63	+ 38	+ 34
Canadian dollar holdings of foreigners	+ 17	+ 30	+ 38	- 18	- 7	+ 5	+ 50
Official holdings of gold and foreign exchange (increase, -)	- 45	+ 71	- 56	- 7	+ 72	- 79	+ 8
Other capital movements	- 21	- 27	+ 155	+ 45	- 63	+ 25	+ 173
Net capital movement financing							
Current account deficit	+ 86	+ 155	+ 162	+ 89	+ 395	+ 345	+ 406



Note: Data for 1955 are preliminary and

		1953			1954	
		II	III	IV	I	II
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,113	1,077	1,044	872	998
3	Gold production available for export .....	37	30	29	35	43
4	Travel expenditures .....	57	172	47	24	59
5	Interest and dividends .....	33	24	81	24	33
6	Freight and shipping.....	86	81	85	70	78
7	Inheritances and immigrants' funds .....	26	26	23	18	28
11	All other current receipts .....	73	94	83	64	72
12	<b>Total Current Receipts</b> .....	1,425	1,504	1,392	1,107	1,306
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,161	1,053	994	923	1,068 <sup>A</sup>
4	Travel expenditures .....	95	124	78	66	98
5	Interest and dividends .....	102	83	133	89	95
6	Freight and shipping.....	106	107	92	70	93
7	Inheritances and emigrants' funds .....	22	23	25	21	23
9	Official contributions .....	10	3	2	4	2
11	All other current payments.....	123	126	116	110	116
12	<b>Total Current Payments</b> .....	1,619	1,519	1,440	1,283	1,495
	Balance on Merchandise Trade .....	- 48	+ 24	+ 50	- 51	- 75
	Balance on Other Transactions, excluding B 9 .....	- 136	- 36	- 96	- 121	- 112
	Official Contributions.....	- 10	- 3	- 2	- 4	- 2
<b>C</b>	<b>Current Account Balance</b> .....	- 194	- 15	- 48	- 176	- 189
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 97	+ 106	+ 114	+ 83	+ 88
2	Direct investment abroad .....	- 10	- 11	- 31	- 9	- 18
	Canadian Securities					
3	Trade in outstanding issues .....	- 35	- 5	- 1	+ 16	+ 21
4	New issues.....	+ 60	+ 14	+ 132	+ 174	+ 93
5	Retirements .....	- 89	- 9	- 19	- 25	- 75
	Foreign Securities					
6	Trade in outstanding issues .....	+ 3	+ 2	+ 15	+ 4	+ 9
7	New issues.....	- 2	- 1	- 19	- 2	- 26
8	Retirements .....	-	-	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 11	-	+ 24	+ 2	+ 11
11	Repayment of war loans.....	+ 7	+ 39	-	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners.....	+ 20	- 71	- 11	- 18	+ 13
16	Change in official holdings of gold and foreign exchange (increase, minus).....	+ 91	- 35	- 34	- 4	- 37
17	Other capital movements .....	+ 41	- 14	- 122	- 52	+ 102
<b>E</b>	<b>Net Capital Movement</b> .....	+ 194	+ 15	+ 48	+ 176	+ 189

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# ANCE OF INTERNATIONAL PAYMENTS

1954 are subject to revision.

1954	1 9 5 5			Annual Totals			Four Quarters ending Sept. 30, 1955	
IV	I	II	III	1952	1953	1954		
(millions of dollars)								
1,062	967	1,098	1,127	4,339	4,152	3,929	4,254	A
38	38	39	37	150	144	155	152	1
49	26	66	179	275	302	302	320	3
63	25	34	28	145	165	143	150	4
79	77	89	93	383	318	309	338	5
19	16	26	25	85	91	89	86	6
81	78	88	87	281	319	298	334	7
1,391	1,227	1,440	1,576	5,658	5,491	5,225	5,634	11
984	961	1,143	1,160	3,850	4,210	3,916	4,248	12
87	77	118	153	341	365	382	435	B
161	120	100	88	413	404	431	469	1
93	74	98	106	375	374	355	371	4
25	22	23	24	94	91	94	94	5
3	5	4	7	16	25	11	19	6
124	123	116	127	405	465	467	490	7
1,477	1,382	1,602	1,665	5,494	5,934	5,656	6,126	9
+ 78	+ 6	- 45	- 33	+ 489	- 58	+ 13	+ 6	11
- 161	- 156	- 113	- 49	- 309	- 360	- 433	- 479	12
- 3	- 5	- 4	- 7	- 16	- 25	- 11	- 19	
- 86	- 155	- 162	- 89	+ 164	- 443	- 431	- 492	C
+ 138	+ 75	+ 85	+ 80	+ 346	+ 426	+ 376	+ 378	D
- 19	- 5	- 10	- 15	- 77	- 63	- 74	- 49	1
+ 17	- 31	+ 7	- 22	- 94	- 31	+ 55	- 29	2
+ 24	+ 108	+ 19	+ 14	+ 316	+ 335	+ 326	+ 165	3
- 54	- 84	- 70	- 11	- 89	- 146	- 202	- 219	4
- 5	+ 13	- 8	+ 4	+ 12	+ 22	+ 7	+ 4	5
- 2	- 5	- 16	- 4	- 20	- 23	- 33	- 27	6
+ 2	+ 3	-	+ 14	-	+ 1	+ 2	+ 19	7
+ 26	-	+ 10	+ 2	+ 33	+ 37	+ 42	+ 38	8
+ 8	+ 7	+ 8	+ 7	+ 23	+ 50	+ 30	+ 30	10
+ 17	+ 30	+ 38	- 18	- 66	- 18	+ 22	+ 67	11
- 45	+ 71	- 56	- 7	- 37	+ 38	- 124	- 37	14
- 21	- 27	+ 155	+ 45	- 511	- 185	+ 4	+ 152	16
+ 86	+ 155	+ 162	+ 89	- 164	+ 443	+ 431	+ 492	17
								E

minus sign indicates an outflow of capital from Canada.

exclusive of undistributed profits.

his item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

ed significantly by procedural change (see text, Vol. 2, No.2.)





67-001

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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FOURTH QUARTER, 1955, AND  
PRELIMINARY ESTIMATES, CALENDAR YEAR 1955

Canada's current account deficit from transactions in goods and services with other countries increased in 1955 to \$665 million from \$431 million in 1954. A greater growth in imports of merchandise than of exports made up \$198 million of the widening of \$234 million in the gap between all imports of goods and services and exports. The remaining \$36 million of the increase was from all other current transactions which, however, constituted almost three quarters of the current deficit, mainly due to large deficits on account of income, travel, transportation, and miscellaneous services.

Accompanying the enlarged deficit were new peak levels of both gross international receipts and payments and internal economic activity in Canada. While this recent current deficit is larger in absolute terms than deficits in earlier periods of rapid Canadian development it represented only 11.5% of total current receipts in 1955 compared with the deficit in 1930 which was 26% of current receipts in that year. But the deficit in 1955 represented a higher proportion of total current receipts than the previous peak deficit of \$517 million in 1950 which was some 8% of current receipts in that year as were the deficits in 1953 and 1954. And the deficit accumulated in the six years 1950 to 1955 of some \$2 1/4 billion has been around 7% of current receipts in the same period.

The growth in the deficit occurred in the second half of the year, following a small reduction in the first half. There was an increase of \$105 million in the deficit in the third quarter and 173 million in the fourth quarter, as the current deficits rose to unprecedented levels for each of those periods. In the second half year as a whole this was entirely due to the increased deficit on merchandise trade which resulted from a greater growth in imports than in exports. This contrasts with the normal pattern of commodity trade in the second half of the year when there is usually an export balance. The widely diffused growth in imports generally reflected new peak levels of economic activity in Canada and was most pronounced in the second half of the year when more than 53% of the year's imports were received. This compares with a usual import movement in that period of less than half the year's total. At the same time Canadian exports were less concentrated in the second half than has usually been the case, partly because of recent changes in the composition of trade. Nevertheless, the growth in Canadian exports throughout the year of some 10% was exceptionally large and even more pronounced in the widening range of industrial materials sold abroad.

The sharp rise in Canadian exports and the increased pace of Canadian economic development accompanied by new high levels of economic activity and incomes in Canada appear to have given the underlying impetus to growth in the deficit in 1955. Investment and consumption in Canada rose to new peaks and defence expenditures continued high. The increase in exports was particularly strong in the forest and mineral and metal industries and reflects unusually high levels of industrial demands for materials in the United States, the United Kingdom and Western Europe.

Prepared in the Balance of Payments Section, International Trade Division.  
503-509-125

Among the changing features of the current account in 1955 was an increased imbalance in current transactions with Canada's principal trading partners. Most of the increase in imports was concentrated in larger purchases from the United States while the increased exports were distributed among more of Canada's trading partners. The deficit with the United States grew almost as much as that with all countries and was not far from the peak in 1947. While the surplus with overseas countries as a group was a little less than in 1954, there was also a sharp rise in the surplus with the United Kingdom and a moderate increase in that with the remainder of the sterling area. But these latter were more than offset by a reduced surplus with other O.E.E.C. countries and the appearance of a deficit with other countries.

The year 1955 was the first in the recent period of deficits in which Canada experienced a current account deficit greater than the net inflow of capital from direct investment, portfolio security transactions, and amortization of official loans. These movements of a predominantly long-term nature totalled \$276 million. Most of the change from the total of \$529 million in 1954 occurred in portfolio security transactions, mainly as a result of reduced sales abroad of new issues of Canadian securities and increased repatriation of foreign-held Canadian bonds and debentures through repurchases of outstanding issues. Other types of capital movement which served to finance the current account deficit in 1955 included a sharp growth in Canadian dollar holdings by non-residents, a moderate reduction in official holdings of gold and foreign exchange which contrasted with the growth in 1954, a considerable reduction of private holdings of foreign exchange by Canadians, and changes in international commercial receivables and payables. Thus the excess of the predominantly long-term inflows over Canada's current physical needs in earlier years was used in part by the Canadian economy to obtain additional physical resources from outside Canada in 1955.

The price of the United States dollar in Canada rose from 96 19/32 cents at the end of 1954 to 99 29/32 cents at the end of 1955, moving through a low of 96 15/32 cents in January and a high of 100 1/16 cents in November. By the year end, the external value of the Canadian dollar had fallen to the levels prevailing during the first quarter of 1952 when the Canadian dollar moved above the traditional parity for the first time in the post-war period. The trading range of 3.59 cents in 1955 was larger than in either 1953 or 1954. Most of the change occurred in the first and last quarters of the year. The average price of the United States dollar in Canada in the final quarter of 1954 had been 96.90 cents, and it rose in the successive quarters of 1955 to 97.60 cents, 98.54 cents, 98.58 cents, and 99.81 cents. Over the year 1955 as a whole, the average price was 98.63 cents compared with 97.32 cents in 1954.

The record current account deficit which Canada incurred in 1955 added materially to Canada's international indebtedness, as did such other factors as the retention in Canada of earnings accruing to non-residents. Foreign long-term investment of all types in Canada had a book value of \$12.5 billion at the end of 1954 and was in excess of \$13 billion at the end of 1955. Canada's net balance of international indebtedness which was reduced to \$3.7 billion in 1948 and 1949 has been growing, and is now of the order of \$7 1/2 billion, or perhaps \$1 billion higher than was recorded in 1930. When viewed in the perspective of the great developments which have occurred in the intervening years, it will be apparent that this balance of indebtedness represents a much lighter burden, relatively, than in the earlier period. But foreign capital plays a dominant and growing role in a number of spheres of Canadian economic activity. For a detailed review of Canada's international investment position and of the place of foreign capital in the Canadian economy the reader is referred to a new D.B.S. report on "Canada's International Investment Position, 1926 - 1954" which will be published within the next few months.

#### Greatly increased deficit in Fourth Quarter

New records for the fourth quarter were reached by the current deficit of \$259 million and each of the totals of current transactions receipts of \$1,527 million and payments of \$1,786 million. This record deficit occurred in a quarter when the more usual result is either a surplus or no more than a small deficit as the usual pattern of commodity trade is to show an export surplus in the final quarter. But instead a large import balance of \$113 million occurred due to the extraordinary strength of import demands combined with lighter than normal exports of grains.

But the deficit from invisible transactions of \$146 million, although seasonally high in the fourth quarter, was some \$18 million less than in the same quarter of 1954. At the same time this deficit from invisibles was higher than in any fourth quarter prior to 1954 except in 1950 when dividends paid by Canadian subsidiaries to parent companies abroad were abnormally high. The reduction in this deficit compared with the fourth quarter of 1954 was mainly due to several rather sporadic factors including large receipts of dividends and miscellaneous income in a period when income payments happened to be less than in the previous year.



The principal changes in the bilateral distribution in the quarter were an increase in the deficit with the United States and a contraction in the surplus with overseas.

The financing demands of the record current account deficit in the fourth quarter were reinforced by a record outflow for direct investment abroad. The net inflow of foreign capital for direct investment in Canadian enterprises remained at about the same level as in preceding quarters. Transactions in portfolio securities were in near balance, as sales of Canadian securities were mainly offset by purchases of new foreign issues. The usual large repayments on official loans to overseas governments occurred in the quarter, but capital movements of all the types mentioned amounted to only \$88 million compared with the current account deficit of \$259 million. The remainder of the deficit was provided mainly through a decline in private and banking holdings of foreign exchange, apparent changes in international commercial open accounts, and a relatively modest reduction in Canada's official holdings of gold and foreign exchange. The adjustments were effected with only a relatively moderate decline in the external value of the Canadian dollar.

#### Rapid increase in import balance during year

The rates of increase of both imports and exports were unusually high in 1955 due to the strong demands both at home and abroad. But as the greater increase was in imports there was an import balance of \$185 million compared with an export surplus of \$13 million in 1954 shown by the adjusted figures for merchandise trade used in the statements. This only represents some 4% of merchandise exports, although it is the largest import balance in absolute amount appearing in the balance of payments in any year for which official statements are available. And like the current deficit this is relatively small when compared with the size of import balances in relation to exports in earlier decades. The change in commodity balance shown between 1954 and 1955 would have been still greater had the balance shown in 1954 not been influenced adversely by a non-recurring change in statistical practice in that year which increased the import total in 1954. Likewise the trends in export and import prices in 1955 tended to moderate the change shown in the commodity balance. As average export prices were approximately 2% higher than in 1954 while import prices were close to 1% there was an improvement in Canada's terms of trade of a little over 1% in 1955.

#### Growth in Canadian exports

The value of exports in 1955 was some 10% higher than in 1954 and the volume close to 8% higher as there was a rise in average export prices. This value was almost as high as the peak value in 1952 and the volume in 1955 attained a new peace-time record as export prices were higher in that earlier year than in 1955.

The growth in exports has been particularly impressive in the sphere of industrial materials. Increased shipments of a number of these commodities accounted for new records in exports in 1955 particularly among forest products, minerals, metals and chemicals. New peak levels were reached by these groups of commodities more than offset declines in shipments of grains and some manufactured goods between 1954 and 1955. The same groups of commodities were responsible for the volume of exports for 1955 exceeding even the volume in the previous record year of 1952. A considerable part of the earlier peak was due to the exceptionally high sales of grains in 1952. Thus the value of exports of forest products and metals and minerals was more than \$400 million higher than in 1952 and exports of chemicals were higher by some two-thirds. These increases generally offset declines in farm products and in certain groups of manufactured products like automobiles which were also exceptionally high in 1952. The increases also offset other declines in certain groups of other manufactured products.

Making possible this rapid growth in exports of industrial materials has been the widespread expansion in Canadian productive capacity that has been underway in recent years. Not only has the basic capacity and productivity of many of the great existing staple export industries been increasing but new commodities not formerly exported in substantial volume became significant contributors to the totals of trade in 1955. Illustrating the recent development in new industries are certain commodities which became more prominent among exports in 1955 such as iron ore, crude petroleum, and some chemicals.

A considerable amount of the new production went to the United States. This along with the recovery from the recession of 1953 and 1954 had the effect of raising Canadian exports to the United States by over 10% to a new peak of more than \$2,600 million. The proportion of Canadian exports to the United States continued at about 60%. Increases were greatest in lumber, pulp and paper, non-ferrous metals, iron ore, primary steel, petroleum, and some chemicals, but exports of agricultural products to the United States were lower.



Exports to the United Kingdom rose even more rapidly, the increase being about 18% bringing the total to \$774 million which is the highest value in the post-war period, comparing with \$727 million in 1952. Strong demands for industrial materials in the forest products and metals group continued to be the basis for the largest part of the exports to that country. There were further increases in these commodities shipped to the United Kingdom, but almost one-half of the increased exports to that country was brought about by larger shipments of grains.

Exports to all countries other than the United Kingdom and the United States as a group were only moderately higher as there were mixed trends to different areas. Increases occurred in shipments to the countries of the rest of the sterling area and to other O.E.E.C. countries but there was a decline to all other countries. Partly responsible for the latter was a sharp drop in sales to Brazil, which more than offset general gains to other Latin American countries, and a drop in exports of grain to some countries in Asia. Larger exports of metals, forest products and chemicals were the main factors more than offsetting lower sales of agricultural products to this group of countries as a whole.

#### New peaks in Canadian imports

An even more striking rise occurred in Canadian imports. These increased by some 15% in value from 1954 to a new peak of \$4,520 million when adjusted for use in balance of payments statements which compares with the previous peak of \$4,210 million in 1953. The rise in volume was about 14% as there was a slight rise in average import prices.

The increase in imports from the United States of almost 17% accounts for most of the rise although increases from other sources were also general. The increases from the previous year were greatest in the latter half of 1955 being 23% and 28% in the third and fourth quarters respectively. Both the value and volume of imports reached new records in the final quarter, being above the previous peak which occurred in the second quarter of 1953, when a particularly large proportion of a year's total is usually imported. Another contrast is that in the earlier peak period there was a substantial general rise in inventories in Canada whereas in the second half of 1955 business inventory increases were much more moderate.

The wide range of commodities which show increases suggest the breadth of demands underlying the growth in imports to a new peak. Substantial increases were spread over most types of commodities. In only a few instances were there declines and these were usually due to special circumstances affecting some agricultural products. Generally the increases were indicative of the record levels of consumption and investment reached in Canada during the past year and included both finished goods and industrial materials and components used by Canadian industry. The largest absolute increases were in metal products ranging from primary steel to industrial machinery and equipment, automobiles and parts, aircraft, electrical apparatus and other kinds of hard goods. But imports of both textile materials and products were also substantially higher as were many other groups of consumer goods. There were also increases in imports of crude petroleum and products.

As already indicated most of the increased purchases were from the United States which rose to a new peak well above 1953. But although imports from the United Kingdom rose they were considerably under the level of 1953 partly due to the effects of industrial disputes in that country as well as increased competition. Imports of automobiles and certain types of machinery and equipment were lower but there were gains in textiles and such important items as aircraft, chemicals and electrical apparatus. While imports from the rest of the sterling area were higher than in 1954 the value was still much less than in 1950 and 1951 when some commodity prices were unusually high. Imports from other O.E.E.C. countries were also moderately higher and imports from Latin America and other countries showed some appreciable rises mainly because of more petroleum from some countries among these groups and a doubling of imports from Japan.

As a result of the above changes in trade there were increases in deficits from trade with the United States and the residual group of other foreign countries of \$216 million and \$91 million respectively and a reduction of \$10 million in the surplus with other O.E.E.C. countries in contrast to increases in surpluses on commodity account with the United Kingdom and other sterling area of \$101 million and \$18 million respectively.

#### Larger Deficit from Invisibles

The deficit from invisible transactions continued to grow at an appreciable rate in 1955, rising by \$36 million to a new peak of \$480 million. Both receipts and payments in the wide range of services covered were higher than ever before but the growth in the latter has been greatest. There

are a variety of changes giving rise to the above result. While there were increases in deficits on travel and income accounts and from inheritances and migrants' funds and official contributions of \$2 million, \$19 million, \$9 million, and \$11 million respectively these were partly offset by reductions in deficits from freight and shipping and from all other current transactions of \$10 million and \$25 million respectively. The value of gold production available for export remained unchanged.

Changes in Principal Elements of the Current Account

with All Countries in 1955

(Millions of dollars)

	1954	1955	Change (1) in 1955
Commodity trade			
Exports adjusted	3,929	4,335	+ 406
Imports adjusted	<u>3,916</u>	<u>4,520</u>	<u>- 604</u>
Balance	+ 13	- 185	- 198
Gold production available for export	+ 155	+ 155	-
Travel expenditures	- 80	- 112	- 32
Interest and dividends	- 288	- 307	- 19
Freight and shipping	- 46	- 36	+ 10
Inheritance and migrants' funds	- 5	- 14	- 9
Official contributions	- 11	- 22	- 11
All other current transactions	- 169	- 144	+ 25
	<u>- 431</u>	<u>- 665</u>	<u>- 234</u>
Current account balance	- 431	- 665	- 234

(1) A minus sign (-) indicates a change contributing to the enlarged current deficit.

The growth in the deficit from invisibles all occurred in the first three quarters. In the final quarter the deficit was less mainly because of a reduction in the deficit on income account in that period.

The chief contributors to the deficits continued to be in the accounts covering income, travel and current transactions. In the case of the two former accounts a substantial rise in receipts was more than offset by increased payments. On income account the chief rise in receipts was in dividends from companies in the United States and overseas, while the higher payments were mainly dividends to the United States paid by both subsidiaries and public companies. But interest paid to bondholders in the United States declined chiefly through the effect of repatriations. Receipts from travellers from other countries at \$329 million were higher than ever before mainly from the rise in the number and expenditures of United States visitors to Canada. But a greater growth continued in expenditures by Canadian travellers both in the United States and overseas countries.

Transactions by areas

The enlarged deficit of \$1,030 million with the United States was almost all the result of the greater increase in imports of merchandise than of exports which has been described above.

The deficit with that country from all other current transactions was only slightly higher as larger deficits on travel and income accounts were generally offset by a rise in receipts from all other current transactions.

The growth in the current surplus with the United Kingdom to \$348 million was primarily the result of the greater increase in Canadian exports than in imports, but a fall in the deficit from invisible transactions contributed mainly through the large surplus on freight and shipping account and changes in defence expenditures.

The increase in the current surplus with other sterling area countries to \$54 million was the result of a larger export balance and larger receipts from income and other services, partly offset by an increase in official contributions financed during the year under the Colombo Plan. The reduction in the current surplus with other O.E.E.C. countries to \$53 million was due to a combination of a reduced export balance and a much larger deficit from invisibles. Larger Canadian defence expenditures were an important contributor to the latter rise. The appearance of a substantial deficit of \$90 million with other countries was chiefly due to the reduction in exports combined with an increase in imports with this region.

Summary of Current Transactions with the United States,

United Kingdom and Other Countries, 1954 and 1955

(Millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1954	1955	1954	1955	1954	1955	1954	1955
<u>Calendar Year</u>								
Exports (adjusted)	3,929	4,335	2,355	2,602	660	772	914	961
Imports (adjusted)	3,916	4,520	2,800	3,263	391	402	725	855
Balance on trade	+ 13	- 185	- 445	- 661	269	+ 370	+ 189	+ 106
Other current receipts	1,296	1,447	946	1,061	176	204	174	182
Other current payments	1,740	1,927	1,311	1,430	213	226	216	271
Balance on invisibles	- 444	- 480	- 365	- 369	- 37	- 22	- 42	- 89
Current account balance	- 431	- 665	- 810	-1,030	+ 232	+ 348	+ 147	+ 17
<u>Fourth Quarter</u>								
Exports (adjusted)	1,062	1,143	620	704	193	189	249	250
Imports (adjusted)	984	1,256	700	896	92	108	192	252
Balance on trade	+ 78	- 113	- 80	- 192	+ 101	+ 81	+ 57	- 2
Balance on invisibles	- 164	- 146	- 154	- 128	+ 8	+ 9	- 18	- 27
Current account balance	- 86	- 259	- 234	- 320	+ 109	+ 90	+ 39	- 29

Capital inflow for direct investment and security transactions below 1954

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises in 1955 is tentatively placed at \$350 million, or slightly below the figure of \$376 million for 1954. Both estimates are subject to revision. The quarterly movements were remarkably stable in total. The petroleum industry continued to attract more than one-half of the total inflow, and mining about one-fifth. The inflow from the United Kingdom was probably again of the order of \$60 million. The inflow from other overseas countries appears to have been larger than in 1954 but there was a contraction in the net movement from the United States. Contributing to this reduction were several major withdrawals of capital.

Preliminary estimates of the movement of capital from Canada for direct investment abroad indicate a net outflow of \$70 million in 1955. Between \$45 million and \$50 million of this



outflow was to the United States, and the balance was to overseas countries, including the United Kingdom. Canadian investment in the food and beverage industry accounted for between \$35 million and \$40 million of the net movement to all countries, and the remainder was spread over a variety of different enterprises.

Portfolio security transactions of all types between Canada and other countries in 1955 resulted in a net capital outflow of \$73 million in contrast to the inflow of \$155 million recorded in 1954. Trade in outstanding Canadian securities led to a net export from Canada of \$19 million of capital. There was an outflow of \$64 million to the United States, but this was offset in part by inflows of \$26 million from the United Kingdom and \$19 million from other overseas countries. As has been the case each year since 1950, Canadians repurchased bonds of Canadian debtors but sold stocks of Canadian corporations. Repatriation of Canadian bonds and debentures amounted to \$166 million comparing with only \$66 million in 1954 and equalling the record level set in 1952 when the strength in the balance of payments set off a sharp climb of the Canadian dollar to its highest value in history. The largest part of the movement, amounting to \$69 million was in Government of Canada direct issues. Net repatriation in 1955 of provincial issues totalled \$59 million. The next largest group of net repurchases were of Government of Canada guaranteed issues although the figure of \$22 million was well below the total of \$31 million for 1954. Unlike 1954, net repatriation resulted from trade in both Canadian municipal and corporation bonds in 1955.

The trading of Canadian bonds and debentures was no doubt influenced in part by the narrowing of the margin between interest rates in Canada and in the United States. Rates in both countries rose over 1955 as a whole. The differential between yields on two representative Canadian and United States long-term Government issues was 56 base points in mid-December 1955 compared with 43 base points one year earlier. But on three occasions in 1955, April, July, and August, the mid-month differential was 5 base points or less, and the average mid-month differential in 1955 was only 16 base points compared with 64 base points in 1954. The declining premium on the Canadian dollar in terms of foreign currencies was also no doubt a factor in the capital import which occurred in the last quarter of the year.

While Canadians were repatriating outstanding Canadian bonds and debentures at a near record rate, they were selling outstanding Canadian stocks on an unprecedented scale. The net capital inflow from the trade in Canadian common and preference stocks amounted to \$147 million in 1955, which followed inflows of \$121 million in 1954 and \$21 million in 1953. On balance, a very substantial part of the net sales since mid-1954 reflects the transactions of seven investment funds established as Canadian diversified management investment companies following a change in United States administration arrangements which facilitated their formation. These funds provide important advantages to United States investors under the tax structure in effect in that country. By the end of 1955, the aggregate investment in Canada of these funds exceeded \$200 million. Part of these investments had been acquired by merger, however, while a part of the value represented market appreciation of the portfolios, and another part represented short-term holdings of Canadian dollars.

The general pattern of trading over 1955, reviewed on a quarterly basis, was somewhat more complex than in 1954 when it could be described simply as increasing volume and increasing disparity between the balances on account of transactions in Canadian stocks and in Canadian bonds and debentures. Repatriation of Canadian bonds and debentures reached a record of \$82 million in the first quarter of the year, but declined in the second and third quarters. A capital import appeared for the first time in 1955 in September, and for the final quarter of the year there were net sales of \$14 million.

Net sales of Canadian common and preference stocks which had amounted to some \$47 million in the fourth quarter of 1954 continued at a rate of between \$50 and \$60 million in the first and second quarters of 1955, but then declined by about half in the third and by about three-quarters in the final quarter of the year. In the fourth quarter of 1954 the net capital movement as a result of trade in all outstanding Canadian securities, had been an inflow of \$17 million. This was preceded by an outflow of \$31 million in the first quarter of 1955 as repatriation of bonds and debentures reached unprecedented levels. As the rate of repatriation contracted in the next quarter, a capital import of \$7 million occurred. In the third quarter, the net sale abroad of Canadian stocks fell, as has been noted, and a capital outflow of \$22 million occurred from trading in all Canadian securities. In the fourth quarter of 1955, for the first time since early 1951, the capital movements from trading in Canadian bonds and debentures were in the same direction as those in Canadian stocks, and despite a further decline in net sales of stocks, there was a capital inflow of \$27 million.

The proceeds of new issues of Canadian securities sold abroad amounted to \$148 million compared with \$326 million in 1954. These movements were influenced by the changes in interest rate differentials to which reference has already been made. Reflecting not only the increase in the interest rate differential in the latter part of the year but also the smaller discount on the United States dollar in Canada, negotiations were completed late in the year with United States

underwriters for the sale in that country in 1956 of new issues of several Canadian debtors. More than two-thirds of the sales in 1955 occurred in the first quarter of the year when there were several municipal issues floated in the New York market as well as participation by foreign investors in issues of corporate bonds payable in Canadian dollars floated in Canada. Also important were subscriptions from non-resident shareholders to new issues of industrial and bank stocks. Sales of stocks accounted for more than four-tenths of all new issues sold abroad during 1955. Retirements were heavily concentrated in the first and second quarters of the year. A negotiated repurchase by the Government of Canada of Canadian bonds and the maturity in non-resident hands of substantial holdings of Government guaranteed bonds accounted for more than one-half of the total of \$190 million.

Transactions in outstanding foreign securities resulted in a net capital inflow for the year of \$18 million. There were net inflows in each quarter of 1955 except the second. Thus the trend towards liquidation by Canadians of holdings of foreign securities, which has been typical of most of the war and post-war period, was re-established in 1955. In the preceding year net purchases of foreign securities by Canadians had occurred in the last two quarters. The exceptional purchase balance recorded in the second quarter of 1955, was entirely the product of sudden interest by Canadian investors in the securities of certain United Kingdom companies. Purchases by Canadians of new issues of foreign securities represented a capital outflow of \$47 million. Included were a number of new issues floated in the Canadian market. The two largest borrowers were the International Bank for Reconstruction and Development and the Commonwealth of Australia. Retirements totalling \$17 million were dominated by the call in advance of maturity of an issue floated in Canada several years ago by the International Bank for Reconstruction and Development.

Additional material on international security transactions in 1955 will be found in the D.B.S. report "Sales and Purchases of Securities between Canada and Other Countries, December, 1955, and Review of Security Trading during 1955".

Repayments on the war and post-war loans made by Canada to overseas governments totalled \$69 million in 1955 compared with \$68 million in 1954. The United Kingdom repaid \$45 million, and there were also receipts from Belgium, Czechoslovakia, France, Indonesia, the Netherlands, and the U.S.S.R. At the end of 1955 the outstanding balances on Canada's war and post-war loans of \$2,450 million amounted to \$1,601 million.

#### Increased inflows of other types of capital financed balance of current deficit

Another form of capital inflow in 1955 was the increase in holdings of Canadian dollars by non-residents, which amounted to \$91 million. This was the largest annual change in any post-war year except 1950 and 1951 when exchange rate expectations led to an extraordinarily large inflow and subsequent reflux. More than two-thirds of the increase in 1955 occurred in holdings of United States residents. A significant part represented short-term holdings of investment trusts awaiting suitable investment opportunities.

In the course of the operations of the Exchange Fund Account and the other exchange transactions of the Government during the year, the authorities reduced official holdings of gold and foreign exchange by \$44 million. Of this \$2 million covered holdings of sterling, and the balance holdings of gold and United States dollars which fell, in terms of United States dollars, from \$1,943 million at the end of 1954 to \$1,901 million at the end of 1955. A month-end low point of \$1,840 million was recorded in February, and in July the holdings reached a month-end peak of \$1,938 million, only slightly below the record holdings with which the year began. The largest change, a reduction of \$94 million, occurred in February. The Minister of Finance revealed that part of the amount had been used for the purchase of \$50 million of Canadian bonds held in the United States and payable in United States currency.

Other capital movements were on balance an important element in balancing Canada's international accounts in 1955. The net inward movement for the year as a whole amounted to \$254 million, equivalent to more than a third of the total financing of the current account deficit. Details for 1955 are not yet completed but this inflow appears to have been attributable about equally to a reduction of Canadian private holdings of foreign exchange and to changes in international accounts receivable and payable. In 1954 the net inflow from these types of transactions was \$4 million and there were substantial outflows in 1952 and 1953 following inflows of the two preceding years when exchange rate considerations and credit stringency in Canada were dominant factors. Over the six year period from 1950 to 1955 inclusive capital movements in this category have amounted on balance to an outflow of \$100 million. This net movement reflects a growth in working balances of foreign exchange held by Canadians of the order of \$200 million, and a net reduction by the International Bank for Reconstruction and Development and the International Monetary Fund of short-term



Canadian dollar holdings by about \$50 million. On the other hand there were net inflows from long-term capital transactions not shown elsewhere and from borrowings by Canadian finance companies to offset all but \$100 million of these outflows.

Summary of Capital Movements

1952 - 1955

(Millions of dollars)

	1952	1953	1954	1955	Total 1952 - 1955	Change 1955 from 1954
Direct investment in Canada	+ 346	+ 426	+ 376	+ 350	+ 1,498	- 26
Direct investment abroad	- 77	- 63	- 74	- 70	- 284	+ 4
Canadian securities						
Trade in outstanding stocks	+ 72	+ 21	+ 121	+ 147	+ 361	+ 26
Trade in outstanding bonds	- 166	- 52	- 66	- 166	- 450	- 100
New issues	+ 316	+ 335	+ 326	+ 148	+ 1,125	- 178
Retirements	- 89	- 146	- 202	- 190	- 627	+ 12
Foreign securities	- 8	-	- 24	- 12	- 44	+ 12
Official loan repayments	+ 56	+ 87	+ 72	+ 69	+ 284	- 3
Canadian dollar holdings of foreigners	- 66	- 18	+ 22	+ 91	+ 29	+ 69
Official holdings of gold and foreign exchange (increase, -)	- 37	+ 38	- 124	+ 44	- 79	+ 168
Other capital movements	- 511	- 185	+ 4	+ 254	- 438	+ 250
Net capital movement financing current account balance	- 164	+ 443	+ 431	+ 665	+ 1,375	+ 234



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1955 are preliminary and

		1953		1954		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,077	1,044	872	993	1,002
3	Gold production available for export .....	30	29	35	43	39
4	Travel expenditures .....	172	47	24	59	170
5	Interest and dividends .....	24	81	24	33	23
6	Freight and shipping.....	81	85	70	78	82
7	Inheritances and immigrants' funds .....	26	23	18	28	24
11	All other current receipts .....	94	83	64	72	81
12	<b>Total Current Receipts</b> .....	1,504	1,392	1,107	1,306	1,421
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,053	994	923	1,068 <sup>x</sup>	941
4	Travel expenditures .....	124	78	66	98	131
5	Interest and dividends .....	83	133	89	95	86
6	Freight and shipping.....	107	92	70	93	99
7	Inheritances and emigrants' funds .....	23	25	21	23	25
9	Official contributions .....	3	2	4	2	2
11	All other current payments.....	126	116	110	116	117
12	<b>Total Current Payments</b> .....	1,519	1,440	1,283	1,495	1,401
	Balance on Merchandise Trade .....	+ 24	+ 50	- 51	- 75	+ 61
	Balance on Other Transactions, excluding B 9 .....	- 36	- 96	- 121	- 112	- 39
	Official Contributions.....	- 3	- 2	- 4	- 2	- 2
<b>C</b>	<b>Current Account Balance</b> .....	- 15	- 48	- 176	- 189	+ 20
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 106	+ 114	+ 83	+ 88	+ 67
2	Direct investment abroad .....	- 11	- 31	- 9	- 18	- 28
	Canadian Securities					
3	Trade in outstanding issues .....	- 5	- 1	+ 16	+ 21	+ 1
4	New issues.....	+ 14	+ 132	+ 174	+ 93	+ 35
5	Retirements .....	- 9	- 19	- 25	- 75	- 48
	Foreign Securities					
6	Trade in outstanding issues .....	+ 2	+ 15	+ 4	+ 9	- 1
7	New issues.....	- 1	- 19	- 2	- 26	- 3
8	Retirements .....	-	-	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	-	+ 24	+ 2	+ 11	+ 3
11	Repayment of war loans.....	+ 39	-	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners...	- 71	- 11	- 18	+ 13	+ 10
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 35	- 34	- 4	- 37	- 38
17	Other capital movements .....	- 14	- 122	- 52	+ 102	- 25
<b>E</b>	<b>Net Capital Movement</b> .....	+ 15	+ 48	+ 176	+ 189	- 20

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

for 1954 are subject to revision.

1954	1955				Annual Totals				
	I	II	III	IV	1952	1953	1954	1955	
	(millions of dollars)								
062	967	1,098	1,127	1,143	4,339	4,152	3,929	4,335	A 1
38	39	39	37	40	150	144	155	155	3
49	26	66	183	54	275	302	302	329	4
63	25	34	28	73	145	165	143	160	5
79	77	91	95	96	383	318	309	359	6
19	16	25	25	20	85	91	89	86	7
81	73	89	90	101	281	319	298	358	11
91	1,228	1,442	1,585	1,527	5,658	5,491	5,225	5,782	12
									B
84	961	1,143	1,160	1,256	3,850	4,210	3,916	4,520	1
87	76	119	151	95	341	365	382	441	4
61	120	101	89	157	413	404	431	467	5
93	74	98	106	117	375	374	355	395	6
25	22	24	27	27	94	91	94	100	7
3	5	4	7	6	16	25	11	22	9
24	125	119	130	128	405	465	467	502	11
77	1,383	1,608	1,670	1,786	5,494	5,934	5,656	6,447	12
78	+ 6	- 45	- 33	- 113	+ 489	- 58	+ 13	- 185	
61	- 156	- 117	- 45	- 140	- 309	- 360	- 433	- 458	
3	- 5	- 4	- 7	- 6	- 16	- 25	- 11	- 22	
86	- 155	- 166	- 85	- 259	+ 164	- 443	- 431	- 665	C
									D
38	+ 80	+ 90	+ 90	+ 90	+ 346	+ 426	+ 376	+ 350	1
19	- 5	- 10	- 15	- 40	- 77	- 63	- 74	- 70	2
17	- 31	+ 7	- 22	+ 27	- 94	- 31	+ 55	- 19	3
24	+ 108	+ 19	+ 14	+ 7	+ 316	+ 335	+ 326	+ 148	4
54	- 85	- 74	- 13	- 18	- 89	- 146	- 202	- 190	5
5	+ 13	- 8	+ 4	+ 9	+ 12	+ 22	+ 7	+ 18	6
2	- 5	- 16	- 4	- 22	- 20	- 23	- 33	- 47	7
2	+ 3	-	+ 14	-	-	+ 1	+ 2	+ 17	8
26	-	+ 10	+ 2	+ 27	+ 33	+ 37	+ 42	+ 39	10
8	+ 7	+ 8	+ 7	+ 8	+ 23	+ 50	+ 30	+ 30	11
17	+ 30	+ 40	+ 6	+ 15	- 66	- 18	+ 22	+ 91	14
45	+ 71	- 56	- 7	+ 36	- 37	+ 38	- 124	+ 44	16
21	- 31	+ 156	+ 9	+ 120	- 511	- 185	+ 4	+ 254	17
86	+ 155	+ 166	+ 85	+ 259	- 164	+ 443	+ 431	+ 665	E

NOTES:

A minus sign indicates an outflow of capital from Canada.

1/ Exclusive of undistributed profits.

2/ This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

3/ Raised significantly by procedural change (see text, Vol. 2, No. 2.)





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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS FIRST QUARTER 1956

Canada's current deficit from transactions in goods and services with other countries rose to a new peak for the first quarter of \$345 million. This compares with \$174 million in the first quarter last year and \$255 million in the fourth quarter. This is about the same size as the highest quarterly deficit to appear which occurred in the second quarter of 1951. In relative terms too, the deficit is much higher than last year when it averaged almost 12% of current receipts. At 25% of current receipts it now represents almost the same proportion of current receipts as in 1930.

The new factor contributing to the large deficit was the massive size of the import balance on commodity account which amounted to \$190 million. The deficit from all other current transactions of \$155 million was slightly less than in the corresponding quarter last year. Until recently the principal elements of the current deficit in the past few years have originated in these "invisible" transactions in the absence of surpluses on commodity account. But since the fourth quarter of 1955 the appearance of a large import balance on commodity account has contributed greatly to the over-all current deficit and in this year it has been the major element for the first since early in 1951.

Unusually strong demands, both in Canada and abroad, continued to be the predominant influence on the shape of Canada's international accounts in the first quarter. As a result of pressures arising from these demands new records were reached in the volume of both total transactions, and some major groups of transactions. But the widening imbalance appears to be related to greater increases in some aspects of Canadian economic activity than occurred abroad and a greater flexibility of imports which made this possible. Canadian imports rose much more rapidly than Canadian exports. Growth in some major groups of exports has been limited to increases in capacity.

The high level of activity in Canada has been readily translated into generally increased demands for industrial materials and consumer goods. But the predominant increase in demand has been for machinery and equipment and other types of goods related to investment. In both cases, the pressure on domestic resources has resulted in an extraordinary diversion into imports.

### Record import balance

The great growth in the import balance has occurred even though the increase in Canada's exports has been substantial. The rate of increase in imports of over 28% for the first quarter of 1955 has outpaced the rise of 9% in exports. The resulting import balance on commodity account was at a new record size in the first quarter. This balance of \$190 million compares with an import balance of \$208 million for the whole year 1955, the figures in both periods being after adjustment for use in balance of payments statements. This import balance in 1955 was likewise in contrast to commodity export balances characteristic in most earlier periods during recent decades, although there was a larger import balance in the second quarter of 1951. This import balance in the first quarter represented a considerably higher proportion of the value of exports in the quarter, 18%, than has been the case in any year since the period before World War I.

A rapid expansion in Canadian imports has been underway since the middle of 1955 following a more moderate growth which reappeared in 1954. The new levels of imports are now well above the levels of the earlier peak which occurred in 1953. In the first quarter this year the value of imports rose some 25% from the same period of last year to a new peak for the period. This rate of increase has only been exceeded in a few periods in the past. Increases have been widespread with virtually all commodities sharing in the rise. In 1955 large increases occurred in industrial machinery and equipment, industrial materials and components and finished consumers' goods. In 1956 more of the increase seems to have occurred in groups of commodities related to investment than was the case even in 1955. But imports of industrial materials and finished goods have also continued to increase, although in some cases to a somewhat less extent than in the latter part of last year. The rises have been related to the unusually high levels of economic activity.

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13-509-36

activity already referred to. Most sources abroad have shared in the increases but the United States accounted for over three quarters of the total, a slightly larger ratio than last year.

The growth in exports continued in the first quarter and the total reached a new peak level for the period. The rate of increase was some 9% over the same period last year and was most concentrated in some of the groups of industrial materials which have accounted for the growing volume of exports in recent years. Most notable increases were in such commodities as pulp and paper, some of the metals, and petroleum. It should be noted, too, that for seasonal reasons the first quarter only contains comparatively small shipments of another growth item, iron ore. And in contrast to 1955 when there was a decline in the value of exports of agricultural products, the total of these rose moderately in the first quarter of 1956 chiefly due to larger exports of wheat and flax seed. The increase in exports was greatest to the United States which continued to take over 60% of the total and which made up over two-thirds of the rise. While there was a moderate decline in shipments to the United Kingdom, exports to other OEEC countries rose by an even greater rate than the rise to the United States.

Since both export and import prices rose by approximately the same amount there was no significant change in the terms of trade compared with the first quarter of 1955. As the rise in export prices was less than 4%, well over half the increase in the value of exports was in physical volume. In the case of imports the increase in value due to higher prices was small in comparison with the great rise in the volume of imports.

#### Deficit on "invisibles"

Following the pattern established late in 1955, the deficit on "invisible" transactions declined in the first quarter of 1956 relative to the same quarter a year ago. The major factor contributing to the smaller deficit was a decline in payments of dividends, and somewhat larger miscellaneous receipts. Partially off-setting this increase were larger expenditures by Canadians travelling in the United States and abroad, and higher freight and shipping payments associated with the new level of commodity trade. Part of the drop in dividend payments was due to the non-recurrence this year of some large payments to parent companies which were made in the first quarter last year. Dividend payments by Canadian public companies to non-resident shareholders were larger this year. It would appear, of course, that earnings retained in Canada have risen significantly with higher levels of profits and growing needs for funds in Canada.

#### Summary of Current Transactions with the United States, United Kingdom, and Other Countries

##### First Quarter, 1955 and 1956

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1955	1956	1955	1956	1955	1956	1955	1956
<u>First quarter</u>								
Exports (adjusted)	967	1,055	580	640	183	180	204	235
Imports (adjusted)	971	1,245	723	935	88	96	160	214
Balance on trade	- 4	-190	-143	-295	+ 95	+ 84	+ 44	+ 21
Other current receipts	266	302	184	218	40	40	42	44
Other current payments	436	457	319	314	53	64	64	79
Balance on "invisibles"	-170	-155	-135	- 96	- 13	- 24	- 22	- 35
Current account balance	-174	-345	-278	-391	+ 82	+ 60	+ 22	- 14



## Transactions by areas

The chief change in the bilateral pattern of transactions has been the enlargement in the deficit with the United States to \$391 million, a level which has only been approached in several earlier quarters when imports were unusually high, and compares with \$278 million in the first quarter of 1955. The sharp growth in Canadian imports of merchandise from the United States has been the outstanding factor in this change, with that country being a leading supplier of most of the kinds of industrial equipment and materials for which Canadian needs have risen sharply. Consequently the import balance on merchandise account with the United States more than doubled even though Canadian exports to the United States have risen substantially. But all other current transactions with the United States resulted in a significantly smaller deficit than last year, mainly because of a reduced deficit on income account and larger miscellaneous receipts which more than outbalanced increased deficits on travel and freight and shipping.

The other outstanding change was a contraction in the surplus with overseas countries, which dropped to \$46 million, less than half the size of the surplus in the first quarter of the previous year. Again the leading factor in the change was the growth in imports which rose much more than the moderate increase in exports overseas. Rises in imports from the United Kingdom, Germany, Japan, Venezuela, and Mexico were particularly notable. The export surpluses with both the United Kingdom and all other countries were reduced mainly by these increased imports. Also contributing to the contraction in the current surplus were increases in the deficits from "invisibles" in the accounts with the United Kingdom and other countries. A larger deficit with the United Kingdom on income account was the leading change in "invisibles" with that country. The larger deficit from "invisibles" with other countries resulted from a variety of factors which tended to increase payments, including larger payments on freight and shipping account to OEEC countries and a rise in the provision of goods and services to Commonwealth countries financed under Canada's contribution to the Colombo Plan.

## Financing the deficit

Canada's international accounts during the first quarter of 1956 were balanced without significant changes in either the exchange rate or official holdings of gold and foreign exchange. Net capital inflows in such long-term forms as direct investment, portfolio security transactions, and official loan repayments, although larger than for many quarters served to finance somewhat less than half the greatly increased current account deficit. These components have been influenced both by the capital investment programme and by the varying levels of interest rates in effect in Canada and in the United States. In total, however, they have not exceeded the current account deficit in any quarter since 1954 and in 1955 as a whole they financed only slightly more than half of it. The other capital movements were mainly short-term in character although they included some long-term borrowing. At times an important component has been the shifts of receivables and payables accompanying changing levels of exports and imports. The temporary bridging of gaps between current account balances—whether surplus or deficit - and long-term capital flows is a function of short-term capital movements. Evidence available to date suggests that long-term capital inflows have increased substantially in the second quarter.

Despite the new peak in current account deficits and the relatively smaller net inflow of capital in long-term forms in the first quarter of 1956 other capital movements were such as to mitigate any tendency towards a significant change in the value of the Canadian dollar on the world's exchange markets. Official holdings of gold and foreign exchange served to finance only \$29 million or about 8 per cent of the deficit. The official holdings of gold and United States dollars at the end of March amounted, in terms of United States dollars, to \$1,871 million. This figure was the same as at the end of March, 1955 and was some \$67 million below the highest month-end level of the year recorded for the end of July.

The size of changes in the official reserves in relation to the magnitude of Canada's international transactions during the quarter gives added significance to the stability of the exchange rate. The price of the United States dollar in Canada closed in March at 99 7/8 cents or 1/32 of one cent below the close for December 1955. The trading range over the quarter was only 5/32 of one cent, and the noon average in the market was 99.88 cents or 0.07 cents higher than for the fourth quarter of 1955.



## Capital movements

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada is tentatively placed at \$110 million during the first quarter of 1956. This level is about the same as during the final quarter of 1955, now recorded at \$111 million, and it is somewhat above the quarterly average for that year. Resource development continued to be the major area of foreign direct investment. Net outflows of capital from Canada for direct investment abroad during the first quarter of 1956 appear to have been of the order of \$45 million, setting a new quarterly record. Contributing substantially to the total was the acquisition by Canadians of interests in a number of existing enterprises in the United States.

Transactions in Canadian portfolio securities led to a capital inflow of \$109 million in the first quarter of 1956. In the final quarter of 1955 the net inflow was only \$21 million, and in preceding quarters there were outflows. Trade in outstanding securities produced \$78 million, of which \$57 million came from the United States, \$4 million from the United Kingdom, and \$17 million from other overseas countries. Net sales of \$32 million outstanding Canadian stocks were larger than for either of the two preceding quarters but well below the very high levels recorded in the final quarter of 1954 and through the first half of 1955. Nearly \$24 million of the sales of outstanding stocks were to the United States and the remainder to overseas countries. Net sales of \$46 million of outstanding Canadian bonds and debentures were more than triple the figure for the final quarter of 1955 and were in striking contrast to the substantial outflows which were characteristic of the preceding period when Canadian and United States interest rates were closer. Sales included \$30 million of Government of Canada direct issues, nearly \$11 million of corporation issues, and smaller amounts of issues of other debtors. United States residents acquired on balance \$34 million and residents of other countries \$12 million of the net outstanding bonds sold by Canadians during the quarter.

Sales abroad of new issues of Canadian securities during the first quarter of the year amounted to \$105 million. This was many times larger than the figures for the preceding three quarters, and was only slightly smaller than the total recorded for the corresponding quarter of 1955. Direct and guaranteed issues of Provincial governments, payable solely in United States funds, represented over 85% of the total. The balance was about evenly divided between municipal and corporation issues as equity securities represented only a small fraction of the total. Retirement of Canadian securities held by non-residents amounted to \$74 million during the quarter, and as in the case of new issues were larger than in the three preceding quarters but smaller than for the corresponding quarter of the previous year. About half of the retirements represented redemption at maturity and the balance calls in advance of maturity.

Transactions in foreign portfolio securities resulted in net capital outflows of \$21 million. Most of this represented net purchases by Canadians of outstanding stocks of United States corporations. Dominating the whole account was a substantial participation by Canadian investors in a public redistribution of stock of an automobile company previously owned by a United States foundation.

Repayments on Canadian government loans to overseas countries were limited as usual during the first quarter to receipt of \$7.5 million from the United Kingdom.

Among capital movements of a generally more short-term nature was an outflow of \$22 million reflecting reduced holdings of Canadian dollars by non-residents. Holdings by United States residents were reduced by a substantially larger amount but residents both of the United Kingdom and of other overseas countries increased their holdings. A capital inflow of \$29 million arising from changes in official holdings of gold and foreign exchange has already been referred to.

All other capital movements appear to have resulted in a net capital inflow of \$178 million during the quarter. This magnitude has been exceeded only twice in the period of five years covered by official quarterly estimates of capital movements, in the second quarters of 1951 and of 1952. Among the components of the total which are currently identifiable have been borrowings by Canadian finance companies, and the virtual elimination of Canadian holdings of United Kingdom treasury bills previously acquired on an interest arbitrage basis. There is also evidence of significant shifts in Canada's international accounts receivable and payable. These are known to have included some pre-payments for exports arising from seasonal factors, and some collections on outstanding receivables. Payables, on the other hand, are known to have increased sharply.

It has been noted in the past that changing levels of international trade are ordinarily accompanied by changes in Canada's international receivables and payables. This is because payments do not normally coincide with commodity movements. Commodity trade statistics (which have not been adjusted to balance of payments concepts) indicate that imports in March were more than \$75 million higher than in December, 1955, while exports fell over \$40 million. The terms of payments for particular commodities and the composition of the commodity flows are, of course, constantly changing and it is not possible to calculate the "normal" change which might be expected in receivables and payables as the result of any given change in commodity flows, nor is it possible to collect data of this nature quarterly. Nevertheless there can be no doubt that a substantial capital import occurred during the first quarter of the year as a result of these factors.

Summary of Capital Movements, by quarters 1954 - 1956

(millions of dollars)

	1954	1955				1956
	IV	I	II	III	IV	I
Direct investment in Canada	155	+ 87	+111	+101	+111	+110
Direct investment abroad	- 22	- 8	- 9	- 12	- 38	- 45
Canadian securities						
Trade in outstanding stocks	+ 47	+ 52	+ 58	+ 25	+ 13	+ 32
Trade in outstanding bonds	- 29	- 83	- 51	- 46	+ 15	+ 46
New issues	+ 25	+109	+ 29	+ 16	+ 12	+105
Retirements	- 54	- 85	- 62	- 18	- 19	- 74
Foreign securities	- 5	+ 10	- 25	+ 14	- 14	- 21
Official loan repayments	+ 34	+ 7	+ 18	+ 9	+ 35	+ 7
Canadian dollar holdings of foreigners	+ 28	+ 30	+ 39	+ 6	+ 14	- 22
Official holdings of gold foreign exchange (increase, -)	- 45	+ 71	- 56	- 7	+ 36	+ 29
Other capital movements	- 54	- 16	+122	+ 1	+ 90	+178
Net capital movement financing						
current account	+ 80	+174	+174	+ 89	+255	+345

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1956 are preliminary and

		1954			
		I	II	III	IV
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted).....	872	993	1,002	1,062
3	Gold production available for export .....	35	43	39	38
4	Travel expenditures .....	24	59	172	50
5	Interest and dividends .....	24	33	23	67
6	Freight and shipping.....	70	78	83	82
7	Inheritances and immigrants' funds .....	18	28	24	19
11	All other current receipts .....	65	72	81	80
12	<b>Total Current Receipts</b> .....	<b>1,108</b>	<b>1,306</b>	<b>1,424</b>	<b>1,398</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted).....	923	1,068 <sup>x</sup>	941	984
4	Travel expenditures .....	65	102	134	88
5	Interest and dividends .....	88	94	85	156
6	Freight and shipping.....	70	93	99	94
7	Inheritances and emigrants' funds .....	21	23	25	25
9	Official contributions .....	4	2	2	3
11	All other current payments.....	114	119	118	128
12	<b>Total Current Payments</b> .....	<b>1,285</b>	<b>1,501</b>	<b>1,404</b>	<b>1,478</b>
	Balance on Merchandise Trade .....	- 51	- 75	+ 61	+ 78
	Balance on Other Transactions, excluding B 9 .....	- 122	- 118	- 39	- 155
	Official Contributions.....	- 4	- 2	- 2	- 3
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 177</b>	<b>- 195</b>	<b>+ 20</b>	<b>- 80</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 93	+ 98	+ 77	+ 155
2	Direct investment abroad .....	- 11	- 18	- 30	- 22
	Canadian Securities				
3	Trade in outstanding issues .....	+ 16	+ 28	+ 1	+ 18
4	New issues.....	+ 177	+ 93	+ 36	+ 25
5	Retirements .....	- 26	- 76	- 47	- 54
	Foreign Securities				
6	Trade in outstanding issues .....	+ 4	+ 9	- 1	- 5
7	New issues.....	- 2	- 26	- 3	- 2
8	Retirements .....	-	-	-	+ 2
	Loans by Government of Canada				
10	Repayment of post-war loans .....	+ 2	+ 11	+ 3	+ 26
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners .....	- 17	+ 13	+ 10	+ 28
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 4	- 37	- 38	- 45
17	Other capital movements .....	- 62	+ 92	- 35	- 54
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 177</b>	<b>+ 195</b>	<b>- 20</b>	<b>+ 80</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

ata for 1955 are subject to revision.

I	1 9 5 5			1956 I	Annual Totals			Four Quarters ending Mar. 31, 1956	
	II	III	IV		1953	1954	1955		
(millions of dollars)									
967	1,098	1,127	1,140	1,055	4,152	3,929	4,332	4,420	A 1
39	39	37	40	37	144	155	155	153	3
26	66	182	54	27	302	305	328	329	4
25	34	28	73	31	165	147	160	166	5
82	95	101	107	98	318	313	385	401	6
16	25	24	21	17	91	89	86	87	7
78	105	106	104	92	319	298	393	407	11
1,233	1,462	1,605	1,539	1,357	5,491	5,236	5,839	5,963	12
971	1,148	1,163	1,258	1,245	4,210	3,916	4,540	4,814	B 1
78	119	156	96	89	365	389	449	460	4
121	108	93	155	103	404	423	477	459	5
77	106	110	115	100	374	356	408	431	6
22	24	28	27	21	91	94	101	100	7
5	4	8	7	8	25	11	24	27	9
133	127	136	136	136	465	479	532	535	11
1,407	1,636	1,694	1,794	1,702	5,934	5,668	6,531	6,826	12
4	- 50	- 36	- 118	- 190	- 58	+ 13	- 208	- 394	C
165	- 120	- 45	- 130	- 147	- 360	- 434	- 460	- 442	
5	- 4	- 8	- 7	- 8	- 25	- 11	- 24	- 27	
174	- 174	- 89	- 255	- 345	- 443	- 432	- 692	- 863	D
87	+ 111	+ 101	+ 111	+ 110	+ 426	+ 423	+ 410	+ 433	1
8	- 9	- 12	- 38	- 45	- 63	- 81	- 67	- 104	2
31	+ 7	- 21	+ 28	+ 78	- 31	+ 63	- 17	+ 92	3
109	+ 29	+ 16	+ 12	+ 105	+ 335	+ 331	+ 166	+ 162	4
85	- 62	- 18	- 19	- 74	- 146	- 203	- 184	- 173	5
12	- 8	+ 4	+ 8	- 16	+ 22	+ 7	+ 16	- 12	6
5	- 17	- 4	- 22	- 5	- 23	- 33	- 48	- 48	7
3	-	+ 14	-	-	+ 1	+ 2	+ 17	+ 14	8
-	+ 10	+ 2	+ 27	-	+ 37	+ 42	+ 39	+ 39	10
7	+ 8	+ 7	+ 8	+ 7	+ 50	+ 30	+ 30	+ 30	11
30	+ 39	+ 6	+ 14	- 22	- 18	+ 34	+ 89	+ 37	14
71	- 56	- 7	+ 36	+ 29	+ 38	- 124	+ 44	+ 2	16
16	+ 122	+ 1	+ 90	+ 178	- 185	- 59	+ 197	+ 391	17
174	+ 174	+ 89	+ 255	+ 345	+ 443	+ 432	+ 692	+ 863	E

NOTES:  
1 A minus sign indicates an outflow of capital from Canada.  
2 Exclusive of undistributed profits.

7 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

Raised significantly by procedural change (see text, Vol. 2, No. 2.)



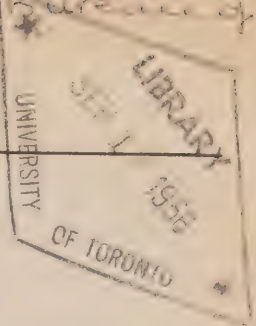
# DOMINION BUREAU OF STATISTICS

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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS SECOND QUARTER, 1956

A further rise in Canada's deficit from transactions in goods and services occurred in the second quarter bringing the current deficit for the first half of 1956 to \$771 million, which is more than double the deficit of \$348 million in the first half of 1955. In absolute terms this is the largest deficit for any corresponding period and relatively it compares with deficits in some earlier periods of exceptional development in Canada. The deficit now represents about one-quarter of current receipts, or more than the ratio in 1929 and about the same ratio as in 1930, but still much less than ratios for the peak of the period of development before the First Great War.

The deficit of \$429 million in the second quarter compares with \$342 million in the first quarter. The increase over the first quarter was chiefly in the import balance on commodity account. Likewise, in the first half year the rise was predominantly in the merchandise balance which accounted for well over half of the current deficit, whereas in the similar period last year most of the deficit originated in the non-commodity transactions. The growth in the deficit from non-commodity transactions continued to be moderated by the absence of a general rise in income remitted from Canada, as the amount of earnings retained in Canada has risen.

The greater growth in imports of goods and services than in exports is, of course, a reflection of the unusual strength of demands in Canada. Canadian expansion and accompanying record levels of economic activity in Canada combined with the flexibility of imports have led to an unusual extent of borrowing of external resources, both in physical and financial forms. At the same time economic activity in the United States and in many other countries continued to provide strong markets for most Canadian exports and this has contributed to the high levels of activity and incomes in Canada. But while the level of Canadian exports has been unprecedented there is not the flexibility in the supply of most commodities exported which exists in imports mainly because of limitations of existing productive capacity. Imports have also fluctuated much more widely than Canadian manufacturing production.

### Import deficit

With both exports and imports reaching new peaks in the second quarter of 1956, the deficit on merchandise trade (adjusted for balance of payments purposes) reached record levels of \$268 million for the second quarter and \$454 million for the first six months of the year. This deficit on commodity trade compares with an annual deficit of \$208 million in 1955, and a succession of surpluses in seven of the ten years since 1946. For the first six months of 1956, the deficit represented some 20 per cent of total exports, - a new record for this relationship in recent decades. Imports for the six-month period were up \$663 million, or 31 per cent; exports were up \$263 million, or 13 per cent, and total trade increased by 2 per cent over the same six months of 1955.

Expansionary forces resulting primarily from the high level of resource development and industrial growth continued to stimulate Canada's import requirements. As a result, imports of investment goods, - construction and engineering materials and equipment, and machinery have shown the sharpest increases.

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Many imports of this type have risen at much higher rates than total imports. But the rise in imports has been widespread. For at the same time, encouraged by extraordinarily high levels of employment and income, the increased demand for consumption goods of all sorts has been translated into increased import examples being provided by automobiles and textiles and many industrial materials. Some \$496 million of the \$663 million total increase in imports has come from the United States. The remainder of the increase has been mainly obtained from Western Europe, the United Kingdom, Mexico, Venezuela and Japan.

A further growth in exports to a new peak in value and volume for the period occurred in the first half of 1956. The rise was 13 per cent above the level of the same period last year, and 16 per cent in the second quarter. High levels of economic activity in the United States and in many overseas countries provided the underlying strength of demands for industrial raw materials and these were reinforced by a notable rise in sales of wheat. A special feature of this rise in total exports was the sharp increase in clearances of wheat which accounted for not far from one-half of the rise. But other commodities also continued to grow in total and reached a higher level than ever before for the first half of any year, although the total was about the same as in the second half of 1955, a period when exports are normally at their highest levels. Increases, however, were more concentrated in certain groups of commodities than had been the case with rises in the previous year. Among the more outstanding increases in exports of industrial materials were crude petroleum, which almost quadrupled in value, copper and some other non-ferrous metals, iron ore, uranium, and wood pulp. Exports of newsprint also continued to grow as did also shipments of aircraft and motor vehicles, while exports of agricultural implements and other machinery remained about the same in total. But there were some declines in exports among which lumber was one of the more notable principally because of lower sales to the United Kingdom where stocks were being reduced. Some other exports which declined were shingles, lead and zinc, and aluminum, the latter being held down by power shortages. About half of the increase in exports went to the United States and most of the remainder to Europe. The feature of the latter rise was an increase in exports of wheat to Western Europe and also large wheat sales to various countries in Eastern Europe. Although total exports to the United Kingdom were lower, there were increases to the other Commonwealth countries, and a substantial increase occurred in sales to Japan.

Export prices have been slowly but steadily increasing since late in 1954, but import prices have started to rise only within the past nine months. Since the first six months of 1955, both export and import prices have risen on the average over three per cent, leaving the terms of trade relatively unchanged so far this year.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries, 1955 and 1956

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1955	1956	1955	1956	1955	1956	1955	1956
<u>Second Quarter</u>								
Exports (adjusted)	1,098	1,273	647	720	201	199	250	354
Imports (adjusted)	1,148	1,541	833	1,120	99	148	216	273
Balance on trade	- 50	-268	-186	-400	+102	+ 51	+ 34	+ 81
Balance on "invisibles"	-124	-161	-102	-133	- 5	- 16	- 17	- 12
Current account balance	-174	-429	-288	-533	+ 97	+ 35	+ 17	+ 69
<u>January to June</u>								
Exports (adjusted)	2,065	2,328	1,227	1,360	384	379	454	589
Imports (adjusted)	2,119	2,782	1,556	2,052	187	244	376	486
Balance on trade	- 54	-454	-329	-692	+197	+135	+ 78	+103
Other current receipts	630	694	447	488	86	93	97	113
Other current payments	924	1,011	684	715	104	133	136	163
Balance on "invisibles"	-294	-317	-237	-227	- 18	- 40	- 39	- 50
Current account balance	-348	-771	-566	-919	+179	+ 95	+ 39	+ 53

### Deficit on "invisibles"

The deficit on non-merchandise account in the second quarter of 1956 was only \$5 million larger than that incurred in the first quarter, but some \$37 million above the second quarter of last year. This year-to-year increase more than offset the relatively smaller deficit of the first quarter, bringing the cumulative deficit for the first six months of the year to \$317 million, as compared to \$294 million for the same six months of 1955. Items contributing to this larger deficit included increased expenditures by Canadian tourists outside Canada, higher net payments for freight and shipping services, and increased government expenditures for economic and technical aid. Partially compensating for these increased expenditures, were relatively higher immigrant and other miscellaneous receipts and smaller net payments on income account. The decline in remittances abroad of interest and dividends resulted from the occurrence in 1955 of several extraordinary and non-recurring dividend payments. At the same time, the 1956 income payments to date, do not as yet reflect the extensive sale both of outstanding and of new issues of Canadian securities to non-residents which has occurred in the past six months, nor much of the income to come on new direct investments in industry.

### Transactions by areas

In the second quarter of 1956, the deficit on current account increased by \$87 million over the first quarter, and the deficit with the United States by \$147 million. Comparing the first six months of 1955 and 1956, the overall deficit rose by \$423 million to \$771 million, and the deficit with the United States rose by \$353 to \$919 million. This increased deficit with the United States was more than accounted for by the rise in merchandise imports. With the rising level of economic activity in Canada, the pressure of final demand has resulted in sharply increased imports of materials and finished consumer and investment goods as that country is the source of some three-quarters of Canada's imports. The deficit with the United States for non-merchandise items showed a small decline, reflecting increased Canadian payments in the tourist and service categories which were more than offset by smaller income remittances and larger miscellaneous receipts.

Net imports of goods and services from the United Kingdom increased in the second quarter of 1956, reducing the surplus from \$179 million in the first six months of 1955 to \$95 million in 1956. In the second quarter of 1955, the rail and dock strikes, reinforced by high levels of internal demand, substantially limited the level of United Kingdom exports to Canada. The major part of the increase in imports evinced in the first and second quarter of 1956 consisted of automobiles, machinery, electrical goods, textiles, and payments on account of ships constructed in the United Kingdom. The slight decline in total exports to the United Kingdom was chiefly due to the reductions in sales of lumber and pulp which were partly offset by increases in exports of other commodities. Larger payments on income account by tourists and for miscellaneous items more than doubled the deficit on non-merchandise trade.

The increased deficit with the United States and the smaller surplus with the United Kingdom were offset to a very limited extent by an increase in the surplus with the rest of the world from \$39 million to \$53 million in the first six months of 1955 to 1956. There was a significant rise in exports to a wide range of countries, particularly Western Europe, Russia, and some Commonwealth countries, and an increase in imports from Europe and Latin America. The overall surplus on merchandise trade rose by \$25 million to \$103 million in the six-month comparison, and was counteracted by an increase in the deficit on invisibles related primarily to larger tourist expenditures and Colombo Plan disbursements. The other principal change from the previous year in the current balance with this group of countries was the virtual disappearance of the deficit with countries other than the sterling area and the O.E.E.C.

### Financing the deficit

The record current account deficit of \$429 million incurred in the second quarter of 1956 was financed without any apparent balance of payments strain. Indeed the Canadian dollar strengthened on the international exchange market, and a significant addition was made to Canada's official holdings of gold and foreign exchange. The net capital inflow in such long-term forms as direct investment, portfolio security transactions, and official loan repayments was \$357 million, nearly equal to the corresponding total for the whole of 1955, and considerably more than twice the figure for the first quarter of 1956. This category of capital inflow was equivalent to more than 80 per cent of the enlarged current account deficit in the second quarter compared with somewhat less than half in the first quarter of 1956 and somewhat more than half in the preceding year. The remaining balance was, of course, equal to the net movements of capital in other forms. These included in the second quarter a net inflow of \$102 million covering private movements mainly in short-term forms (including a reduction of \$5 million in holdings of Canadian dollars by non-residents), and an outflow of \$30 million covering net acquisitions of gold and foreign exchange for the official holdings. The latter movement virtually restored the official holdings to the level at the end of 1955.



The exchange rate for the Canadian dollar strengthened noticeably over the quarter, the price of the United States dollar in Canada falling from 99 7/8 cents at the beginning to 98 3/32 at the end. The opening rate was the high for the quarter, and the closing rate was only slightly above the low. The trading range in the market was 1.87 cents, and the noon average for the quarter as a whole was 99.12 cents compared with 99.88 cents in the first quarter.

Although the record deficit for the first half of 1956 was financed without visible strain on the balance of payments, it should not be overlooked that it involved a very considerable addition to Canada's external liabilities. Canada's net balance of international indebtedness was estimated to have been \$7.7 billion at the end of 1955. By mid-1956 it was probably of the order of \$8½ billion, having risen continuously from \$3.7 billion at the end of 1949. The investment in Canada to which this financing has contributed has resulted in a great growth in productive capacity. But the resulting liability represents increasing ownership and control by non-residents of Canadian industry and an increasing claim on the income of the country which may be expected to lead in the future to sharply increased payments abroad on income account.

### Capital movements

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada reached new heights during the second quarter of 1956 and is tentatively estimated to have amounted to \$140 million. The inflow was more than 25 per cent above that of the first quarter, and exceeded by more than 10 per cent the previous record established in the final quarter of 1954. For the first six months of the current year, the net movement amounted to \$250 million. Mining and petroleum development accounted for some three-quarters of the total. Overseas capital has been playing a relatively more important role in direct investment during the first half of 1956 than in 1955 as a whole, accounting for about 35 per cent in the later period in contrast to 25 per cent in the preceding year. The net inflow from overseas countries other than the United Kingdom during the first six months appears to have already exceeded the total for the whole of 1955, while the net movements from the United States and United Kingdom each appear to have been at annual rates well above those for 1955.

The net outward movement of capital from Canada for direct investment abroad during the second quarter was of the order of \$5 million bringing the six-month total to \$50 million. More than half of the net movement was to the United States. The record shows some very large transactions relating to the acquisition or disposal of existing enterprises abroad. Canadians acquired important interests in several fields of retailing in the United States, but disposed of major interests in some other ventures in which Canadian capital had long been dominant. Capital from Canada contributed moderately to the development or extension of some areas of manufacturing in the United States and of mining enterprises in various parts of the world.

Transactions in Canadian portfolio securities resulted in a net capital inflow of \$195 million during the second quarter of 1956, bringing the half-year total to \$305 million. The quarterly movement was larger than any since the massive inflows which occurred during the third quarter of 1950, and reflected the net sale of \$48 million outstanding Canadian stocks and bonds and \$172 million new issues, less \$25 million retirements of Canadian securities owned by non-residents.

Net sales of outstanding Canadian stocks rose to new heights, contributing \$62 million to the total for the second quarter. The balances with the United States, the United Kingdom, and with other overseas countries each rose. Net sales to United States residents amounted to \$35 million, an increase of about one-half over the first quarter balance. There was a very sharp rise in net sales to residents of the United Kingdom, which exceeded \$16 million during the quarter compared with less than \$2 million in the preceding quarter. Residents of other overseas countries added \$11 million to their holdings, compared with \$6 million in the first quarter. In contrast to the transactions in outstanding Canadian stocks there were, however, net repurchases during the second quarter of the year of outstanding Canadian bonds, debentures and other securities amounting to some \$14 million. This movement was in contrast to net sales which occurred on balance in each of the preceding two quarters. Canadians repurchased nearly \$25 million of outstanding Canadian bonds and debentures held in the United States, but sold, on balance, \$3 million and \$8 million to residents of the United Kingdom and other overseas countries, respectively. There were net repurchases from the United States of Government of Canada direct, provincial, and corporation issues, while there were modest sales of Government guaranteed and municipal issues and other securities. Net sales to residents of overseas countries other than the United Kingdom were mainly Government of Canada direct issues.

The proceeds of new issues of Canadian securities sold to non-residents amounted to \$172 million during the second quarter and \$278 million for the first half of 1956. The second quarter total was the highest since the first quarter of 1954. Provincial, municipal and corporate bonds, and common stock all contributed important amounts to the total sales, some 90 per cent of which were to residents of the



United States. Retirements of foreign-held Canadian securities involved a capital outflow of \$25 million during the second quarter and \$99 million for the first half of the year. Most of this outflow was to the United States.

Transactions in foreign securities led to a net capital inflow of \$6 million compared with an outflow of \$17 million in the first quarter when, however, trading was dominated by a substantial participation by Canadian investors in a public redistribution of stock of an automobile company previously owned by a United States foundation. During the quarter there was a net inflow of \$11 million from the sale by Canadians of holdings of outstanding foreign securities, principally stocks of United States corporations, and Canadians purchased \$5 million of new foreign issues, mainly United States corporate and foreign government bonds.

Repayments on Canadian government loans to overseas countries amounted to \$21 million during the second quarter, and included amounts from the United Kingdom, Belgium, Czechoslovakia, the Netherlands, Norway, and the U.S.S.R. The latter payment represented the final instalment on that country's debt to Canada arising from advances made at the end of the Second World War.

Turning to capital movements of a more short-term character, there was an outflow of \$5 million representing a further reduction during the second quarter of Canadian dollar holdings of non-residents. Holdings had been reduced by \$22 million during the first quarter. These reductions are relatively small in comparison with total holdings which were of the order of \$435 million at the end of 1955. A capital outflow of \$30 million occurred during the second quarter to augment Canada's official holdings of gold and foreign exchange. This outflow, to which reference has already been made, followed an inflow of \$29 million in the first quarter.

All other capital movements were on balance again inward during the second quarter of 1956, and appear to have involved a net capital inflow of about \$107 million, compared with \$170 million in the first quarter. Relatively little information is yet available concerning the second quarter movement. The changing values of Canadian commodity trade, the changes in private and commercial holdings of foreign exchange arising from both the financing of trade and the timing of transfer of the proceeds of new issues abroad, the effects of the heavy demand for credit in Canada arising from the phenomenal capital investment programme, and the changing conditions in the forward exchange market, are all among the influences which were probably of major significance in this category of movement.

#### Summary of Capital Movements, 1955 and 1956

(millions of dollars)

	1955		1956		1955		1956
	III	IV	I	II	First half	Second half	First half
Direct investment in Canada	+ 101	+ 111	+ 110	+ 140	+ 198	+ 212	+ 250
Direct investment abroad	- 12	- 38	- 45	- 5	- 17	- 50	- 50
Canadian securities							
Made in outstanding stocks	+ 25	+ 13	+ 32	+ 62	+ 110	+ 38	+ 94
Made in outstanding bonds	- 46	+ 15	+ 46	- 14	- 134	- 31	+ 32
New issues	+ 16	+ 12	+ 106	+ 172	+ 138	+ 28	+ 278
Retirements	- 18	- 19	- 74	- 25	- 147	- 37	- 99
Foreign securities	+ 14	- 14	- 17	+ 6	- 15	-	- 11
Official loan repayments	+ 9	+ 35	+ 7	+ 21	+ 25	+ 44	+ 28
Canadian dollar holdings of foreigners	+ 6	+ 14	- 22	- 5	+ 69	+ 20	- 27
Official holdings of gold and foreign exchange (increase, -)	- 7	+ 36	+ 29	- 30	+ 15	+ 29	- 1
Other capital movements	+ 1	+ 90	+ 170	+ 107	+ 106	+ 91	+ 277
Capital movement financing							
Current account	+ 89	+ 255	+ 342	+ 429	+ 348	+ 344	+ 771

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1956 are preliminary and

		1954				1955
		I	II	III	IV	I
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	872	993	1,002	1,062	967
3	Gold production available for export .....	35	43	39	38	39
4	Travel expenditures .....	24	59	172	50	26
5	Interest and dividends .....	24	33	23	67	25
6	Freight and shipping.....	70	78	83	82	82
7	Inheritances and immigrants' funds .....	18	28	24	19	16
11	All other current receipts .....	65	72	81	80	78
12	<b>Total Current Receipts</b> .....	1,108	1,306	1,424	1,398	1,233
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	923	1,068 <sup>x</sup>	941	984	971
4	Travel expenditures .....	65	102	134	88	78
5	Interest and dividends .....	88	94	85	156	121
6	Freight and shipping.....	70	93	99	94	77
7	Inheritances and emigrants' funds .....	21	23	25	25	22
9	Official contributions .....	4	2	2	3	5
11	All other current payments.....	114	119	118	128	133
12	<b>Total Current Payments</b> .....	1,285	1,501	1,404	1,478	1,407
	Balance on Merchandise Trade .....	- 51	- 75	+ 61	+ 78	- 4
	Balance on Other Transactions, excluding B 9 ....	- 122	- 118	- 39	- 155	- 165
	Official Contributions.....	- 4	- 2	- 2	- 3	- 5
<b>C</b>	<b>Current Account Balance</b> .....	- 177	- 195	+ 20	- 80	- 174
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 93	+ 98	+ 77	+ 124	+ 87
2	Direct investment abroad .....	- 11	- 18	- 30	- 22	- 8
	Canadian Securities					
3	Trade in outstanding issues .....	+ 16	+ 28	+ 1	+ 18	- 31
4	New issues.....	+ 177	+ 93	+ 36	+ 25	+ 109
5	Retirements .....	- 26	- 76	- 47	- 54	- 85
	Foreign Securities					
6	Trade in outstanding issues .....	+ 4	+ 9	- 1	- 5	+ 12
7	New issues.....	- 2	- 26	- 3	- 2	- 5
8	Retirements .....	-	-	-	+ 2	+ 3
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 2	+ 11	+ 3	+ 26	-
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners	- 17	+ 13	+ 10	+ 28	+ 30
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 4	- 37	- 38	- 45	+ 71
17	Other capital movements .....	- 62	+ 92	- 35	- 23	- 16
<b>E</b>	<b>Net Capital Movement</b> .....	+ 177	+ 195	- 20	+ 80	+ 174

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income and insurance transactions, and business services.

# ANCE OF INTERNATIONAL PAYMENTS

for 1955 are subject to revision.

1955				1956		Annual Totals		Four Quarters ending June 30, 1956	
III	IV	I	II	1953	1954	1955			
(millions of dollars)									
1,127	1,140	1,055	1,273	4,152	3,929	4,332	4,595	A	1
37	40	37	38	144	155	155	152		3
182	54	27	64	302	305	328	327		4
28	73	31	39	165	147	160	171		5
101	107	98	114	318	313	385	420		6
24	21	17	27	91	89	86	89		7
106	104	96	106	319	298	393	412		11
1,605	1,539	1,361	1,661	5,491	5,236	5,839	6,166		12
1,163	1,258	1,241	1,541	4,210	3,916	4,540	5,203	B	1
156	96	89	132	365	389	449	473		4
93	155	103	117	404	423	477	468		5
110	115	100	132	374	356	408	457		6
28	27	21	25	91	94	101	101		7
8	7	8	9	25	11	24	32		9
136	136	141	134	465	479	532	547		11
1,694	1,794	1,703	2,090	5,934	5,668	6,531	7,281		12
- 36	- 118	- 186	- 268	- 58	+ 13	- 208	- 608		
- 45	- 130	- 148	- 152	- 360	- 434	- 460	- 475		
- 8	- 7	- 8	- 9	- 25	- 11	- 24	- 32		
- 89	- 255	- 342	- 429	- 443	- 432	- 692	-1,115	C	
								D	
+ 101	+ 111	+ 110	+ 140	+ 426	+ 392	+ 410	+ 462		1
- 12	- 38	- 45	- 5	- 63	- 81	- 67	- 100		2
- 21	+ 28	+ 78	+ 48	- 31	+ 63	- 17	+ 133		3
+ 16	+ 12	+ 106	+ 172	+ 335	+ 331	+ 166	+ 306		4
- 18	- 19	- 74	- 25	- 146	- 203	- 184	- 136		5
+ 4	+ 8	- 16	+ 11	+ 22	+ 7	+ 16	+ 7		6
- 4	- 22	- 1	- 5	- 23	- 33	- 48	- 32		7
+ 14	-	-	-	+ 1	+ 2	+ 17	+ 14		8
+ 2	+ 27	-	+ 13	+ 37	+ 42	+ 39	+ 42		10
+ 7	+ 8	+ 7	+ 8	+ 50	+ 30	+ 30	+ 30		11
+ 6	+ 14	- 22	- 5	- 18	+ 34	+ 89	- 7		14
- 7	+ 36	+ 29	- 30	+ 38	- 124	+ 44	+ 28		16
+ 1	+ 90	+ 170	+ 107	- 185	- 28	+ 197	+ 368		17
+ 89	+ 255	+ 342	+ 429	+ 443	+ 432	+ 692	+1,115	E	

minus sign indicates an outflow of capital from Canada.

exclusive of undistributed profits.

This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

and significantly by procedural change (see text, Vol. 2, No. 2.)





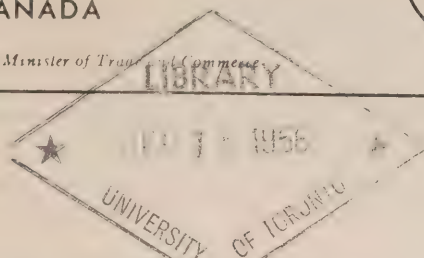
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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS THIRD QUARTER, 1956

In the third quarter of 1956 Canada's current deficit from transactions in goods and services with foreign countries was at an unprecedentedly high level for that period of the year. At \$202 million it was more than twice as high as in the same quarter of 1955 when it was \$89 million. The enlarged deficit was the combined result of increases in import balances on commodity account and the deficit from all other current transactions. Although less in absolute terms than deficits in the preceding quarters this year, the underlying imbalance continued to be very great, and general influences giving rise to a widening deficit continued to be strong. In the third quarter current receipts are normally larger in relation to current payments than earlier periods of the year, and several times even in recent years small current surpluses have emerged in the third quarter.

In the first three quarters of the year the current deficit was \$984 million compared with \$437 million in the same period of 1955 and \$692 million in the whole of that year. At this level it amounted to more than one-fifth of current receipts, a ratio which has been exceeded only in a few periods of unusual development in the first half of this century. Accompanying the extra-ordinary level of economic activity during the first three quarters of 1956 have been unprecedented demands for investment goods, industrial materials, and consumption goods. These were translated into import demands for a wide variety of goods and services. At the same time, high levels of investment and consumption have been experienced by most of the industrial countries in Europe and America; this situation was reflected in a strong demand for Canadian exports.

### Financing the deficit

Against a background of exceptionally high long-term capital inflows the exchange value of the Canadian dollar has shown increasing strength, reaching in September its highest level since February, 1955. The rapid pace of development in Canada reflected in record levels of capital formation has led to heavy financing demands in the Canadian capital markets. As a general rule investment originating with non-resident entrepreneurs has been accompanied by external financing. Much investment originating internally leads to external financing. And to the investment decisions of Canadian entrepreneurs there must be added the other capital demands arising from both non-resident and Canadian industrial investment and from the generally high level of economic activity on which these are an influence. The total investment demands on Canadians have consequently exerted heavy pressures on Canadian markets and have led Canadian governments and corporations to have recourse on a significant scale to external capital markets. For some period past the physical demands of the Canadian economy on the rest of the world appear to have played a relatively important role in shaping Canada's balance of international payments than the problems of financing investment. This condition manifested itself in a tendency for current account deficits to exceed imports of long-term capital.

But with the growing stringency of credit, the internal problem of financing capital expenditure in Canada has now assumed increased importance, reflected in the balance of payments particularly in the sale

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abroad of new Canadian issues. This change has coincided with the normal seasonal tendency for strength in the current account in the third quarter. Thus, while long-term capital inflows were of practically the same magnitude in the third quarter as in the second, in the later period they greatly exceeded the reduced current account deficit. It should be borne in mind, however, that new borrowing, both internal and external, may be expected frequently to differ somewhat in timing from the capital expenditure it is to finance. For this reason the distinction between the influences on foreign borrowing mentioned above must of necessity be regarded as tentative over such relatively short periods as a quarter.

#### Commodity deficit

Both exports and imports declined from the peaks attained in the second quarter of 1956, but the fall in exports was small, some \$14 million as compared to a \$194 million decline in imports. As a result the merchandise trade deficit fell from \$279 million in the second quarter to \$99 million in the third. The cumulative totals for the first nine months of the year showed significant increases in both exports, \$373 million or almost 12 per cent, and imports \$847 million or over 25 per cent. The merchandise trade deficit for the first nine months of 1956 was \$564 million, compared with \$90 million for the corresponding period of 1955 and \$208 million for the whole year 1955. This increase in the trade deficit for the nine month period of \$474 million accounts for a substantial portion of the total increase in the deficit on current account of \$547 million.

The decline in imports in the third quarter was \$194 million or over 12 per cent, but it should be noted that there normally occurs a decline in imports from the second to the third quarter. Another factor at work this year was the effect of the steel strike in the United States, and imports of primary and semi-finished steel were substantially down from the abnormally high levels of the second quarter. The same was the case with imports of automobiles and parts which were abnormally high in the second quarter. On the other hand, imports of machinery and equipment which have been an important contributor to the rises throughout this year seem to have been well maintained from incomplete data available for the third quarter.

Imports for the first nine months of 1956 have been heavily concentrated in materials and equipment for the capital investment program, industrial materials, and for certain consumers' goods such as automobiles and textiles. Apart from the United States and the United Kingdom which have been major sources of supply for the wide variety of demands, imports have increased significantly from such countries as West Germany, Belgium and Luxembourg, Mexico and Japan.

The level of exports at \$1,248 million was slightly less than in the second quarter when it reached a record for that period but the total constitutes a new peak for the third quarter. While export clearances of wheat were considerably lower than the very high total in the second quarter, there were substantial gains in exports of many other commodities. Most conspicuous among these was the growing volume of exports of iron ore which are heaviest in the third quarter. Other large contributors to the totals included forest products and metals which continued even higher than in the second quarter. Exports of petroleum were also much higher than in earlier years, although at about the same level as in the second quarter.

In the nine months of 1956 exports rose by almost 12 per cent. The greatest increase over the previous year has been the sharp revival in sales of wheat which made up more than one-third of the rise, having increased by more than one-half. Nevertheless exports of other commodities as a group rose by more than 8 per cent. But there has been some unevenness in the trends in different commodities. Some commodities which have risen most notably (besides wheat) have been commodities under development like iron ore, petroleum and uranium. Other exports which have risen sharply include copper, ferroalloys, aircraft and flaxseeds. High levels of others have been maintained or exceeded. Among the more notable instances of reductions are lumber, fertilizers and some metals.

There have, in addition, been shifts in the origin of demand for our exports. A large part of the increase in wheat exports has been to central and western European countries experiencing shortages. At the same time, there have been increases in other exports to West Germany and Japan, countering to some extent the substantial rise in imports from these countries.

With export prices some 2 per cent higher than at the beginning of the year, and import prices relatively unchanged, the terms of trade appear to have moved slightly in Canada's favour. As compared to the third quarter last year, export prices are up some 3 per cent and import prices 2 - 3 per cent, leaving the volume comparisons comparable to the value levels.

#### Deficit on "invisibles"

During the third quarter of 1956, the deficit on non-merchandise account declined from the second quarter level under the influence of normal seasonal factors, which are particularly pronounced in the travel account. But the deficit, at a level of \$103 million, was almost double the deficit incurred in the same quarter last year. A factor contributing significantly to the size of the deficit in this quarter was the



of net payments abroad on income account. While receipts were lower, in relation to both the second quarter of this year and the third quarter of 1955, payments approximated the second quarter 1956 level, and substantially exceeded the third quarter of last year. Although the dividend policies of Canadian companies, including particularly the wholly-owned subsidiaries, tend to be influenced by a wide variety of factors, a large part of the increased transfers appears to reflect the fruition of some of the recent major non-resident investments as well as generally higher levels of profits in 1956 to date. Reinforcing the impetus towards a relatively larger deficit this quarter were higher net payments for freight and shipping services and for miscellaneous items. A third quarter surplus in the travel account has been largely responsible for the seasonal decline in the non-merchandise deficit; however, this year, as a result of a smaller volume of tourists entering Canada, and of a larger number of Canadians visiting abroad, the surplus was notably smaller.

The cumulative deficit for the first nine months of this year was \$420 million, some \$73 million or 17 per cent larger than for the same period of 1955. All of the non-merchandise items with the exception of gold available for export, and migrants' and inheritance transfers showed larger deficits this year to date than for the first nine months of last year. The most important increase in deficit relates to the \$41 million increase in expenditures abroad by Canadian tourists, as compared to a \$5 million increase in receipts. The largest single increase in receipts or payments in the "invisible" items came in the freight and shipping account, where, largely as a result of record levels of exports and imports, receipts and payments increased some \$45 million and \$70 million respectively. Other accounts, including income, official contributions, and miscellaneous items, showed deficits larger than last year, as expenditures rose more than receipts. Accompanying the larger number of immigrants to Canada in the first nine months of the year were increased receipts of migrants' funds, and a smaller deficit on that account. The value of gold available for export remained unchanged from the corresponding period of 1955.

# Summary of Current Transactions with the

## United States, United Kingdom and Other Countries, 1955 and 1956

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1955	1956	1955	1956	1955	1956	1955	1956
<u>Third Quarter</u>								
Exports (adjusted)	1,127	1,248	670	732	199	219	258	297
Imports (adjusted)	1,163	1,347	826	939	110	124	227	284
Balance on trade	- 36	- 99	-156	-207	+ 89	+ 95	+ 31	+ 13
Balance on "invisibles"	- 53	-103	+ 1	- 38	- 18	- 23	- 36	- 42
Current account balance	- 89	-202	-155	-245	+ 71	+ 72	- 5	- 29
<u>January to September</u>								
Exports (adjusted)	3,192	3,565	1,897	2,092	583	598	712	875
Imports (adjusted)	3,282	4,129	2,382	2,989	297	369	603	771
Balance on trade	- 90	-564	-485	-897	+286	+229	+109	+104
Other current receipts	1,108	1,192	829	885	133	142	146	165
Other current payments	1,455	1,612	1,065	1,150	169	205	221	257
Balance on "invisibles"	-347	-420	-236	-265	- 36	- 63	- 75	- 92
Current account balance	-437	-984	-721	-1,162	+250	+166	+ 34	+ 12

### Transactions by areas

The \$202 million deficit in the third quarter of 1956, some \$238 million less than the second quarter deficit, reflected primarily a decline of \$286 million in the deficit with the United States. Of this decline \$191 million related to a reduction in the commodity deficit, arising almost entirely from lower imports, and \$95 million to the increment from a deficit to a surplus on travel account. The surplus with the United Kingdom increased from \$34 million to \$72 million as exports increased and imports decreased. This increase in the surplus with the United Kingdom was more than offset by an opposite movement in the balance with other overseas countries, from a second quarter surplus of \$57 million to a deficit of \$29 million caused by a larger increase in imports than in exports of merchandise and by larger net payments for "invisible" items.

As compared to the third quarter of last year, the overall deficit has increased by \$113 million of which \$90 million was with the United States. The increase in the United States deficit has resulted from larger net payments for both merchandise and non-merchandise items. The surplus with all overseas countries declined by the remaining \$23 million.

For the first nine months of 1956, the deficit reached the unprecedented level of \$984 million, as compared to \$437 million for the first nine months of 1955. This growth of \$547 million resulted mainly from a rise of \$441 million in the deficit with the United States. There was also a reduction in the surplus with overseas countries which accounted for the remaining \$106 million of the change.

The current deficit with the United States of \$1,162 million in the nine months was higher than ever before. Of this some \$897 million was in merchandise trade which accounted for \$412 million of the growth. The deficit from "invisible" transactions with that country was \$265 million, only \$29 million more than in the same period last year. Exports to the United States of certain items such as iron ore and petroleum have increased markedly, and the overall increase in exports to that country was of the order of 10 per cent. At the same time, under the impetus of the extra-ordinary level of capital investment expenditure in Canada, imports from the United States of industrial machinery and equipment, and construction material, as well as automobiles for personal consumption, have generally risen even more than the gain of some 25 per cent in total imports from that country as compared to last year. The major portion of the increase in expenditures on "invisible" items has been associated with tourist expenditures and freight.

The current account balance with the United Kingdom and other overseas countries has been in surplus for the first nine months, but the surplus in each case has been smaller than for the same period last year. For the most part, the export balance resulted from smaller surpluses on merchandise trade, and larger deficits on non-merchandise items. The level of United Kingdom imports from Canada has shown only a nominal increase while Canadian imports from that country, including both investment and consumption goods, were some \$72 million higher in the first nine months. Relatively larger payments for most non-merchandise items resulted in an increased deficit in that account and reduced still further the current account surplus with the United Kingdom.

The \$22 million decline in the surplus with the other overseas countries relates to a drop of \$5 million and of \$17 million in the surpluses in merchandise and non-merchandise trade respectively. Exports to and imports from other overseas countries increased by relatively the same amounts. The largest increases in exports were to European countries, including Poland and Russia, and to Japan; the largest increases in imports were from Europe, Mexico and Japan. The increase in the deficit on "invisibles" was primarily a reflection of increased expenditures in Europe related to travel abroad and NATO commitments, and in the Sterling Area for equipment and assistance under the Colombo Plan.

### Capital movements

Capital movements in such long-term forms as direct investment, portfolio security transactions, and official loan repayments, led to a capital inflow of \$352 million in the third quarter. This impressive figure was of roughly the same magnitude as in the second quarter but was greater by nearly 75 per cent than the net current account deficit. Between the beginning of 1955 and mid-1956 capital inflows in the long-term forms fell short of the deficit on current account. During this period of a year and a half the remaining gap was financed by a marked reduction of Canadian holdings of funds abroad by industry and by a considerable increase in net commercial liabilities. However, during the quarter under review Canadian holdings of funds abroad have increased greatly. As in the earlier quarters of 1956, overseas countries were again the source of about one-third of the total long-term capital inflow.

The net inflow of foreign capital for direct investment in non-resident controlled enterprises continued at a high level during the third quarter but fell well short of the record rate of \$150 million established in the second quarter. The preliminary estimate of \$115 million for the third quarter brought the nine-month total to \$365 million compared with \$299 million for the corresponding period of 1955 and with \$410 million for that year as a whole. Inflows to the petroleum industry have shown considerable stability and have been of the order of \$55 million to \$65 million in each of the three quarters of 1956. Manufacturing



tries received about \$35 million in the third quarter, and the balance of the movement was spread over a variety of concerns. The net inflow for mining was very small and more than half of the decline of \$35 million in the net direct investment inflow from the second to the third quarter reflected reduced inflows to that industry. During the third quarter more of the net movement of direct investment came from the United States than in the first half of the year. For the first three quarters of 1956 the United States accounted for about two-thirds of the total.

Net outflows of capital for direct investment abroad are tentatively estimated to have amounted to \$100 million in the third quarter, bringing the nine-month total to \$75 million; about half this movement was accounted for by the United States.

Transactions in Canadian portfolio securities during the third quarter of 1956 led to a net capital inflow of \$245 million, bringing the nine-month total to a record \$554 million. The quarterly inflows in both the second and third quarters were exceeded only in the third quarter of 1950. The movement included \$69 million from the net sale of Canadian stocks and bonds and \$200 million from the sale to non-residents of new issues, less \$24 million of Canadian securities owned by non-residents which were retired.

Net sales to non-residents of outstanding Canadian stocks reached a new level of \$77 million in the third quarter, rising by \$15 million over the previous record established in the second quarter. While the balance of \$25 million with the United States was some \$10 million below the second quarter total, the balance with the United Kingdom more than doubled, reaching an impressive \$34 million, while transactions with other overseas countries also led to a sharply increased inflow of \$18 million. Net sales for nine months totalled \$245 million, comprising \$84 million to the United States, \$52 million to the United Kingdom, and \$35 million to other countries. Trading in other outstanding Canadian securities, mainly bonds and debentures, led to net repurchases during the quarter of \$8 million, net sales of \$3 million and \$5 million to the United Kingdom and to other overseas countries having partly offset net repurchases of \$16 million from the United States.

Proceeds of new issues of Canadian securities sold to non-residents reached a higher figure during the third quarter of 1956 than any recorded since the publication of quarterly estimates was begun in 1950. A total of \$200 million reflected principally borrowings by Provincial governments, municipalities and corporations, although some \$8 million of Government of Canada issues and \$18 million of Canadian common and preference stocks were taken up by non-residents. About 70 per cent of new bonds and debentures sold to non-residents during the quarter were payable solely or optionally in foreign currencies. Residents of the United States bought about 85 per cent of total new issues. Retirements of foreign-held Canadian securities during the third quarter involved a capital outflow of \$24 million, reflecting mainly Government of Canada issues. Most of this outflow was to the United States. (Detailed balance of payments statistics covering issues and retirements of Canadian securities appear at quarterly intervals in the monthly report "Sales and Purchases of Securities between Canada and Other Countries".)

Transactions in foreign securities led to a small capital inflow of \$5 million during the quarter.

Repayments on Canadian government loans to overseas countries were limited during the third quarter to a receipt of \$7.5 million from the United Kingdom.

Among the capital movements of a more short-term character during the quarter were outflows of \$10 million representing the reduction of Canadian dollar holdings by foreigners. Three successive quarters of net outflow have reduced these holdings to \$400 million. There was also a small outflow of \$5 million representing net additions to Canada's official holdings of gold and foreign exchange. The other capital movements resulted in a balance to an outflow of \$135 million during the quarter. By and large this amount reflected increased holdings of United States dollars by the non-official sector, including the proceeds of new issues of Canadian securities sold abroad which were awaiting transfer. The outward movement during the third quarter contrasted to that which occurred during the first half of the year when there were net inflows of \$289 million. This amount included an apparent substantial increase in net short-term commercial payables abroad.

The Canadian dollar continued to appreciate on the international exchange market during the third quarter of 1956. The price of the United States dollar in Canadian funds fell from 98 3/32 cents at the beginning of the quarter to 97 15/32 cents at the end. The trading range between the high and low quotations for the quarter was one cent, and the noon average price for the quarter as a whole was 98.03 cents or 1.09 Canadian dollars lower than during the second quarter.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1956 are preliminary and

		1954			1955	
		II	III	IV	I	II
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	993	1,002	1,062	967	1,098
3	Gold production available for export .....	43	39	38	39	39
4	Travel expenditures .....	59	172	50	26	66
5	Interest and dividends .....	33	23	67	25	34
6	Freight and shipping.....	78	83	82	82	95
7	Inheritances and immigrants' funds .....	28	24	19	16	25
11	All other current receipts .....	72	81	80	78	105
12	<b>Total Current Receipts</b> .....	1,306	1,424	1,398	1,233	1,462
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,068 <sup>x</sup>	941	984	971	1,148
4	Travel expenditures .....	102	134	88	78	119
5	Interest and dividends .....	94	85	156	121	108
6	Freight and shipping.....	93	99	94	77	106
7	Inheritances and emigrants' funds .....	23	25	25	22	24
9	Official contributions .....	2	2	3	5	4
11	All other current payments.....	119	118	128	133	127
12	<b>Total Current Payments</b> .....	1,501	1,404	1,478	1,407	1,636
	Balance on Merchandise Trade .....	- 75	+ 61	+ 78	- 4	- 50
	Balance on Other Transactions, excluding B 9 ....	- 118	- 39	- 155	- 165	- 120
	Official Contributions.....	- 2	- 2	- 3	- 5	- 4
<b>C</b>	<b>Current Account Balance</b> .....	- 195	+ 20	- 80	- 174	- 174
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 98	+ 77	+ 124	+ 87	+ 111
2	Direct investment abroad .....	- 18	- 30	- 22	- 8	- 9
	Canadian Securities					
3	Trade in outstanding issues .....	+ 28	+ 1	+ 18	- 31	+ 7
4	New issues.....	+ 93	+ 36	+ 25	+ 109	+ 29
5	Retirements .....	- 76	- 47	- 54	- 85	- 62
	Foreign Securities					
6	Trade in outstanding issues .....	+ 9	- 1	- 5	+ 12	- 8
7	New issues.....	- 26	- 3	- 2	- 5	- 17
8	Retirements .....	-	-	+ 2	+ 3	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 11	+ 3	+ 26	-	+ 10
11	Repayment of war loans.....	+ 8	+ 7	+ 8	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners	+ 13	+ 10	+ 28	+ 30	+ 39
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 37	- 38	- 45	+ 71	- 56
17	Other capital movements .....	+ 92	- 35	- 23	- 16	+ 122
<b>E</b>	<b>Net Capital Movement</b> .....	+ 195	- 20	+ 80	+ 174	+ 174

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

Data for 1955 are subject to revision.

1955		1956			Annual Totals			Four Quarters ending Sept. 30, 1956	
III	IV	I	II	III	1953	1954	1955		
(millions of dollars)									
127	1,140	1,055	1,262	1,248	4,152	3,929	4,332	4,705	A
37	40	37	40	38	144	155	155	155	1
182	54	27	64	188	302	305	328	333	3
28	73	31	39	24	165	147	160	167	4
101	107	98	114	111	318	313	385	430	5
24	21	17	28	27	91	89	86	93	6
106	104	96	106	107	319	298	393	413	7
605	1,539	1,361	1,653	1,743	5,491	5,236	5,839	6,296	11
163	1,258	1,241	1,541	1,347	4,210	3,916	4,540	5,387	12
156	96	89	132	173	365	389	449	490	B
93	155	103	117	116	404	423	477	491	1
110	115	100	134	129	374	356	408	478	4
28	27	21	26	29	91	94	101	103	5
8	7	8	9	4	25	11	24	28	6
136	136	141	134	147	465	479	532	558	7
694	1,794	1,703	2,093	1,945	5,934	5,668	6,531	7,535	9
36	- 118	- 186	- 279	- 99	- 58	+ 13	- 208	- 682	11
45	- 130	- 148	- 152	- 99	- 360	- 434	- 460	- 529	12
8	- 7	- 8	- 9	- 4	- 25	- 11	- 24	- 28	C
89	- 255	- 342	- 440	- 202	- 443	- 432	- 692	-1,239	D
101	+ 111	+ 100	+ 150	+ 115	+ 426	+ 392	+ 410	+ 476	1
12	- 38	- 50	- 5	- 20	- 63	- 81	- 67	- 113	2
21	+ 28	+ 78	+ 48	+ 69	- 31	+ 63	- 17	+ 223	3
16	+ 12	+ 106	+ 172	+ 200	+ 335	+ 331	+ 166	+ 490	4
18	- 19	- 69	- 26	- 24	- 146	- 203	- 184	- 138	5
4	+ 8	- 16	+ 11	+ 9	+ 22	+ 7	+ 16	+ 12	6
4	- 22	- 1	- 5	- 4	- 23	- 33	- 48	- 32	7
14	-	-	-	-	+ 1	+ 2	+ 17	-	8
2	+ 27	-	+ 13	-	+ 37	+ 42	+ 39	+ 40	10
7	+ 8	+ 7	+ 8	+ 7	+ 50	+ 30	+ 30	+ 30	11
6	+ 14	- 22	- 5	- 10	- 18	+ 34	+ 89	- 23	14
7	+ 36	+ 29	- 30	- 5	+ 38	- 124	+ 44	+ 30	16
1	+ 90	+ 180	+ 109	- 135	- 185	- 28	+ 197	+ 244	17
89	+ 255	+ 342	+ 440	+ 202	+ 443	+ 432	+ 692	+1,239	E

## NOTES:

A minus sign indicates an outflow of capital from Canada.

2 Exclusive of undistributed profits.

7 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

x Raised significantly by procedural change (see text, Vol. 2, No. 2.)

Summary of Capital Movements, 1955 and 1956

(millions of dollars)

	1955		1956			1955	1956
	III	IV	I	II	III	First nine months	First nine months
Direct investment in Canada	+101	+111	+100	+150	+115	+299	+365
Direct investment abroad	- 12	- 38	- 50	- 5	- 20	- 29	- 75
Canadian securities							
Trade in outstanding stocks	+ 25	+ 13	+ 32	+ 62	+ 77	+135	+171
Trade in outstanding bonds	- 46	+ 15	+ 46	- 14	- 8	-180	+ 24
New issues	+ 16	+ 12	+106	+172	+200	+154	+478
Retirements	- 18	- 19	- 69	- 26	- 24	-165	-119
Foreign securities	+ 14	- 14	- 17	+ 6	+ 5	- 1	- 6
Official loan repayments	+ 9	+ 35	+ 7	+ 21	+ 7	+ 34	+ 35
Canadian dollar holdings of foreigners	+ 6	+ 14	- 22	- 5	- 10	+ 75	- 37
Official holdings of gold and foreign exchange (increase, -)	- 7	+ 36	+ 29	- 30	- 5	+ 8	- 6
Other capital movements	+ 1	+ 90	+180	+109	-135	+107	+154
Net capital movement financing current account	+ 89	+255	+342	+440	+202	+437	+984



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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1956, AND

PRELIMINARY ESTIMATES CALENDAR YEAR 1956

Canada's international accounts in 1956 showed, in even more pronounced form, a pattern which has become such a prominent feature of the last half dozen years. Current expenditures abroad on goods and services again rose more rapidly than did receipts to give rise to a current account deficit which doubled in 1956 to \$1,398 million from \$692 million in 1955. The deficit from merchandise trade rose by three and a half times to \$734 million while the deficit from other current transactions increased by more than one-third to \$664 million. This increased imbalance has chiefly taken the form of an increased deficit with the United States which widened to \$1,659 million while the surplus with overseas contracted further to \$261 million. The accompanying inflows of long-term capital financing the deficit were three times as high as in the previous year, and included substantial inflows from overseas as well as from the United States.

In absolute terms both the deficit and the long-term capital inflow are much higher than ever before. In relative terms too, the degree of imbalance has been most exceptional. The current deficit at 22 per cent of current receipts bears some comparison with the corresponding ratios of 19 per cent and 15 per cent respectively in 1929 and 1930, and has only been greatly exceeded this century in relative terms by the deficits prevailing during the peak years of development which occurred before the First Great War. In that early period foreign capital is believed to have contributed the major share of financing investment in Canada. In contrast in the more recent period, domestic sources of savings have been the major overall source, although non-resident capital has been a large and growing source of financing in the spheres of development. This has particularly been the case in resource development and other industrial expansion, and in turn has greatly increased the non-resident ownership and control of Canadian industry. And in 1956 even as an overall source, non-resident capital contributed approximately one-third of the financing of net investment in Canada.

The high rate of economic growth in Canada and the more intense pace of economic activity in 1956 have contributed to the exceptionally large current deficits and capital inflows. The extraordinary increases in Canadian expenditures abroad resulted from the increased demand and supply pressures which had asserted themselves in the economy in 1955. A conspicuous feature of this growth has been the development of basic resource industries, and this in turn has led to the expansion of both secondary and tertiary forms of capital investment. Canadian outlays on building and engineering construction and producers' equipment rose up 24 per cent in 1956. During the period of development in particular, imports are swollen by the heavy demands for industrial and construction machinery and equipment and materials, although the investment in primary industry is increasing export capacity. The accompanying high levels of economic activity in Canada in turn have contributed to heavy imports of industrial materials and consumers' goods. The current account deficits are a measure of the net contribution of non-resident goods and services to the supply of resources available to Canadians and the capital inflows are the means by which these purchases are financed. In some cases the capital inflows have provided the initial stimulus to investment, as many of the investments, particularly in primary industry, have been financed by non-resident capital. Imports of goods and services and capital have been much more flexible and have therefore risen proportionately more than either domestic production, exports, or domestic savings.

As the Canadian economy continued to grow and prosper in 1956, so to a very large extent did the rest of the world. High levels of investment and consumption in the United States, Europe, Japan, Latin

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America, encouraged larger Canadian exports. The wheat shortages in Eastern and Western Europe served to supplement the demand for other Canadian goods and services.

#### Long-term capital inflows tripled in 1956

Capital movements and financial markets were affected by the special strains to which the Canadian economy was subjected, with an unprecedented volume of capital investment to be financed in a period of generally high economic activity. As noted the physical aspect of these pressures was felt in the substantial deficits incurred on current account as the Canadian economy supplemented its own output with large net draughts on goods and services of other countries. Strong pressure was also exerted on Canada's capital market, and there were sharp increases in interest rates. Higher interest rates were, of course, also characteristic of foreign capital markets but the differential between rates in Canada and in the United States widened. This development contributed to a very large volume of financing abroad by provincial governments, municipalities, and corporations. These inflows were superimposed on the persistent inflows in recent years for direct investment in foreign-controlled enterprises in Canada and for portfolio investment in Canadian equities, both of which reached new heights in 1956. For the year as a whole the inflow for direct investment is placed at \$525 million. Transactions in Canadian securities led to a further inflow of \$749 million, which included \$269 million of equities. These two groups of transactions added \$1,274 million to Canadian external liabilities in long-term forms. On the long-term asset side there were outflows of \$100 million for direct investment abroad, but inflows of \$14 million and \$69 million respectively occurred from transactions in foreign securities and repayments on loans made by Canada. Transactions in all the particular long-term forms described above thus led to a net capital import of \$1,257 million which was in striking contrast to the \$362 million recorded in 1955. There were outflows of \$24 million and \$33 million covering reductions of foreign-owned Canadian dollar holdings and increases in official holdings of gold and foreign exchange. All other capital movements, some of which were long-term in form, led to a net capital inflow of \$198 million, bringing the total net capital movement to \$1,398 million.

Capital in the long-term forms identified in the preceding paragraph was sufficient to finance 90 per cent of the current account deficit in 1956. In 1955 it covered only 52 per cent. In each earlier post-war year of current account deficits, capital imported in long-term forms exceeded the deficit to be financed. Thus in 1955 and 1956 the great demands of the booming Canadian economy were satisfied in part by drawing goods and services from abroad which represented the real transfer and use of long-term financing obtained in earlier periods. A review of the quarterly statistics reveals that by mid-year this phase came, temporarily at least, to a close. The growing internal problem of financing capital expenditure in Canada led to increasing resort by Canadian borrowers to foreign capital markets, and at the same time there were increased transfers from overseas countries on which international developments undoubtedly had some influence. From the middle of the year the capital imported in long-term forms was more than adequate to cover the physical drawings from abroad. The latter however, tend to be normally most heavily concentrated in the first half of the year.

These developments were accompanied by the marked shift in the exchange rate. The price of the United States dollar in Canada fell from 99 29/32 cents at the end of 1955 to 95 31/32 cents at the end of 1956. It moved through a high of 99.97 cents in February and a postwar record low of 95.66 cents in November, a trading range of 4.31 cents which was wider than for any year since 1952. In general, persistent strengthening of the Canadian dollar on the international exchange market was characteristic of 1956. The Canadian dollar had weakened through 1955 and the annual noon averages for the two years were not greatly different, 98.63 cents in 1955 compared with 98.41 in 1956.

The United States continued to be the major source of long-term external capital for Canada in 1956. Indeed the net movements in long-term forms identified earlier in this report were about two-thirds from the United States in 1956 in contrast to somewhat less than one-half in 1955 when there was a significant volume of repatriation of Canadian funded debt from that country. Although overshadowed by the size of the tremendous inflows from the United States the movements from overseas also rose sharply, in the case of the United Kingdom to about twice their level in 1955, and in the case of other overseas countries to about two and one-half times the 1955 figure. While overseas countries have not, as a general rule, been an important source of debt capital for Canada for many years past, their demand for Canadian portfolio equities together with some major direct investments in Canada and the placement of some new Canadian issues in European markets, brought the total inflow in long-term forms to well over \$400 million for the year. This is more than double the figure for 1955 and is far in excess of any year since the commencement of regular official balance of payments statistics in 1926.

#### Fourth quarter deficit

The \$375 million deficit in the fourth quarter, \$157 million more than in the third quarter, and \$120 million more than in the fourth quarter of 1955, brought the annual deficit to a total of \$1,398 million. The pressure of demand for merchandise imports continued in the fourth quarter; exports increased to a smaller extent, and the deficit on merchandise trade was \$165 million. The non-merchandise deficit



to a new peak in the fourth quarter, as a result of a \$24 million decline in receipts and a \$49 million increase in payments over the same quarter of 1955. The major factor in the increased deficit was income. Some receipts declined, largely on account of the absence of the normal interest receipt from the United Kingdom on account of the 1946 loan. Pending the decision to waive the interest payment, the amount of the interest set aside in a special fund by the United Kingdom has not been included as a current account receipt. Some payments to non-residents normally high in the fourth quarter of the year reached a level not exceeded since 1950. In addition, as the high level of activity was maintained right up to the end of the year, net payments in the fourth quarter continued above the same quarter last year for travel, freight and shipping, and other miscellaneous items.

Inflows of capital for long-term investment, containing some unusually large transactions, continued at a high level in the fourth quarter. These were about the same magnitude as the current deficit and there was not the substantial net outflow on short-term account that characterized the previous quarter. Noted above the Canadian dollar displayed its greatest strength in this period.

#### Export expansion in import balance

Merchandise trade transactions (adjusted for balance of payments purposes) showed substantial increases in 1956 as both imports and exports reached new peaks, and the value of total trade rose to \$14.4 billion. Imports increased by \$1,028 million and exports by \$502 million, increasing the deficit in merchandise trade from \$208 million to \$734 million. This deficit represents just under 40 per cent of the value of exports, a record level for this comparison.

Most of these increases were in the physical volume of trade. For the year as a whole, both import and export prices were some 3 per cent above the 1955 levels, leaving the terms of trade relatively unchanged. Over the year, from January to December 1956, export prices were rising and import prices falling slightly.

The flexibility shown by Canada's imports in the past few years has been one of the outstanding features of the Canadian balance of payments. The value of imports in 1956 rose 23 per cent following a rise of 16 per cent in 1955. The 1956 level is 32 per cent higher than the previous peak which occurred in 1953. Even greater flexibility has occurred in certain important areas of imports of which good examples are provided by industrial machinery and equipment, and industrial and construction materials like primary and semi-finished steel. The increase in 1956 in imports of non-agricultural machinery was not far short of one-half while a broad group of imports of primary and semi-finished steel was almost double. Although in some instances cited were among the more extreme, increases were general throughout the import items. In a few cases there were declines in imports and these were usually due to special circumstances such as reduced imports of military and commercial aircraft or declines in prices of some agricultural imports.

As already noted there are close links between this pattern of imports and the strength and nature of demands in the Canadian economy in 1956. The unprecedented levels of investment and large scale construction in Canada have been a particularly influential factor in giving rise to the large scale imports of machinery and equipment and materials used in connection with investment activities. At the same time the accompanying high levels of production and incomes have created a need for the record volume of imports of industrial materials which has resulted, and likewise imports of consumer goods have also been at unusually high levels because of rising incomes.

As imports from the United States continued to amount to almost three-quarters of the total, the largest part of the increase during the year was from that country which showed an increase close to the rate of increase of imports from all countries. Imports from the United Kingdom also rose at about that rate but imports from Latin America increased at a slower rate, while imports from Europe and some other foreign countries were up about one-half.

While the strong growth in the value of Canadian exports continued in 1956 there were different underlying elements in the increase. About two-fifths of the rise in the year sprang from the revival in wheat and other grain sales. Consequently although the overall rise of about 12 per cent was more than in the previous year, the rate of increase of some 8 per cent in the trade in other commodities was less than the rate of 14 per cent in the previous year. A large and rising part of this increase was again in commodities undergoing rapid development in production like iron ore, petroleum, and uranium. Most of the remaining increase was in the value of some of the non-ferrous metals and price increases played a large part in this. Other rises in value were scattered and included pulp and paper and some secondary products like aircraft, passenger cars, non-farm machinery, alcoholic beverages, and also steel. Prominent among decreases in exports were lumber and shingles, farm machinery, and fertilizers.

A little more than one-half of the rise in exports during the year was in shipments to the United States which once more represented around 60 per cent of the total. The increase in exports to the United States was almost all in exports of industrial materials with only a very small part being from exports of agricultural products in contrast to overseas countries where most of the larger shipments of commodities can be traced to larger sales of wheat. Most of the rise in commodities undergoing rapid development referred



to above went to the United States, and most of the more established exports to that country showed further, although more moderate, increases. On the other hand declines or a softening appeared in some exports to the United States, examples of which are provided by construction materials such as certain kinds of lumber and shingles and some types of agricultural implements and fertilizers.

The rate of increase in exports overseas was greater than to the United States because of the sharply increased sales of wheat. Besides increases in exports of wheat to the United Kingdom and some other countries of Western Europe, there were large sales to the USSR and other countries of Eastern Europe. The rise in the exports of grains made up some three-quarters of the whole increase in exports overseas. The remaining increase in exports of other commodities overseas of some 5 per cent was chiefly in the non-ferrous metals group and in a few other commodities. Exports of forest products to the United Kingdom and elsewhere overseas were lower, mainly due to the drop in sales of lumber.

Only a small part of the rise in exports overseas was to the United Kingdom, and there was little change in the total to the rest of the Sterling Area. The chief increase in the movement overseas was to Europe with the most notable gains to Eastern Europe and to Western Germany. Another large rise occurred in exports to Japan with a further more moderate rise to Latin America.

#### Deficit from transactions in services and other non-merchandise items

Between 1955 and 1956, the overall balance of payments deficit increased by \$706 million; of this, \$180 million relates to larger net payments for "invisible" items. As non-merchandise receipts increased by some 4 per cent, and payments by 12 per cent, the deficit rose by more than one-third to \$664 million. All of the non-merchandise items with the exception of inheritances and migrants' transfers, showed either larger deficits or smaller surpluses in 1956.

The deficit from interest and dividend transactions rose from \$317 million in 1955 to \$389 million in 1956. Payments of these types of income to non-residents increased by over 10 per cent. Larger remittances of dividends and profits to the United States by public companies, branches and many subsidiaries accounted for almost all of the increase in total income payments during 1956. Earnings seem to have been adequate to permit substantial remittances at the same time as investment requirements were high, and money rather tight. Significant parts of the increased remittances were earnings on recent investments. Interest payments remained relatively unchanged for the year, but the extraordinary growth of new issues of funded debt sold to non-residents points to a substantial increase in these payments during the coming year.

#### Changes in Principal Elements of the Current Account with all Countries, 1956

(millions of dollars)

	<u>1955</u>	<u>1956</u>	<u>Change in 1956</u>
Commodity trade			
Exports adjusted	4,332	4,834	+ 502
Imports adjusted	4,540	5,568	- 1,028
Balance	- 208	- 734	- 526
Gold production available for export	+ 155	+ 150	- 5
Travel expenditures	- 121	- 162	- 41
Interest and dividends	- 317	- 389	- 72
Freight and shipping	- 23	- 50	- 27
Inheritances and migrants' funds	- 15	- 9	+ 6
Official contributions	- 24	- 29	- 5
All other current transactions	- 139	- 175	- 36
Current account balance	- 692	- 1,398	- 706

Income receipts showed a decline in 1956. A major factor in this decline was the drop in interest receipts from the United Kingdom discussed earlier. Interest receipts by the Government on account of fiscal reserves were somewhat higher. For the most part dividend receipts showed little overall change despite of continuing high levels of activity outside Canada, chiefly because of some reduced remittances of foreign subsidiaries of Canadian companies.

The deficit on freight and shipping account more than doubled in 1956 to \$50 million. This is a moderate rise than in the commodity balance and resulted chiefly from a relatively substantial increase in earnings from inland freight on exports, particularly on such bulk commodities as iron ore, petroleum, and beans which offset some of the increased payments. Receipts on shipping account also rose with larger Canadian earnings on time charters and on traffic between foreign countries. The increased deficit however, from a larger absolute rise in total payments for inland freight and shipping services on imports. The increase in deficit with all countries was about the same as the growth in the deficit on this account with the United States. The surplus with overseas countries remained about the same in both years.

The deficit on travel account rose by one-third to \$162 million from \$121 million in 1955. The increase was fairly evenly divided between the travel accounts with the United States and overseas countries. In both cases Canadian expenditures on travel abroad rose more rapidly than outlays in Canada by non-resident travellers. Although the latter at \$335 million were higher than ever before the increase was slight compared with the increase in Canadian expenditures abroad to a total of \$497 million. Canadian expenditures on travel in the United States rose by some 8 per cent while expenditures on travel overseas rose by about 23 per cent.

Payment for other miscellaneous "invisible" items rose by \$54 million, and receipts rose by \$18 million during 1956. The small increase in receipts relates to a wide variety of items, largely with the United States. Payments rose in 1956 for business and engineering services purchased from abroad as a part of the general growth pattern. In addition there were larger expenditures in connection with Canada's commitments for NATO forces in Europe, and for personal remittances abroad.

Gold available for export declined by \$5 million in 1956. Official contributions increased by \$5 million in 1956; the major part of this covers Canada's contribution to the Colombo Plan.

The one account which showed an improvement on balance was inheritances and migrants' funds. Primarily as a result of a substantial increase in immigration to Canada from 110,000 in 1955 to some 150,000 in 1956, receipts of migrants' funds rose. Most of this increase relates to the United Kingdom and continental European countries. Emigration from Canada to the United States continued to rise during 1956, there was a falling off of emigration to the United Kingdom; total transfers abroad rose moderately.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries, 1955 and 1956

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1955	1956	1955	1956	1955	1956	1955	1956
<u>Calendar Year</u>								
Exports (adjusted)	4,332	4,834	2,598	2,850	772	817	962	1,167
Imports (adjusted)	4,540	5,568	3,280	4,025	405	491	855	1,052
Balance on trade	- 208	- 734	- 682	- 1,175	+ 367	+ 326	+ 107	+ 115
After current receipts	1,507	1,574	1,098	1,135	208	197	201	242
After current payments	1,991	2,238	1,457	1,619	234	272	300	347
Balance on "invisibles"	- 484	- 664	- 359	- 484	- 26	- 75	- 99	- 105
Current account balance	- 692	- 1,398	- 1,041	- 1,659	+ 341	+ 251	+ 8	+ 10
<u>Each Quarter</u>								
Exports (adjusted)	1,140	1,274	701	758	189	219	250	297
Imports (adjusted)	1,258	1,439	898	1,039	108	121	252	279
Balance on trade	- 118	- 165	- 197	- 281	+ 81	+ 98	- 2	+ 18
Balance on "invisibles"	- 137	- 210	- 123	- 184	+ 10	- 12	- 24	- 14
Current account balance	- 255	- 375	- 320	- 465	+ 91	+ 86	- 26	+ 4



### Transactions by areas

The increased deficit in 1956 was substantially the result of swings in opposite directions in the balances with the United States and the United Kingdom, as the deficit with the former increased sharply and the surplus with the latter declined. The overall balance with other groups of overseas countries remained small and relatively unchanged in total although there was a decline in the 1955 surplus position of the other Sterling Area and OEEC countries, partly offset by a decline in the deficit with the remaining countries. The general effect therefore, was to widen sharply to a new peak of \$1,659 million the imbalance with the United States, and to reduce the current surplus with overseas countries to \$261 million. This current surplus with overseas was the smallest since 1950, and a large contributor to the surplus which remained in 1956 with these countries was the unusually heavy sale of wheat in the past year.

The other unusual feature about the pattern of transactions by areas in 1956 was the unprecedentedly large volume of inflows of capital from overseas countries for long term investment in Canada. These inflows were about double the amount in the previous year which up to then had been much the highest of any post-war year. Being well over \$400 million these capital inflows from overseas served to finance about one-quarter of the current deficit with the United States. And together with the current surplus with overseas countries, over 40 per cent of that deficit was financed from overseas sources. Long term types of inflow from the United States although they were almost five times the previous year only financed about one-half of Canada's current deficit with that country. Short term inflows from the United States also contributed a minor part of the financing.

The main impact of the strong pressures of demand and supply in Canada in 1956 was reflected in the greatly enlarged deficit with the United States. Of the total increase in deficit of \$706 million, \$618 million was with the United States, - some \$493 million in merchandise trade and \$125 million in "invisible" items. The resulting current deficit of \$1,659 million was almost half as high again as the previous peak deficit with that country of \$1,134 million in 1947. Almost three-quarters of the overall billion dollar increase in merchandise imports was from the United States, and for a large part in investment goods. The growth in the trade deficit with the United States from \$445 million in 1954 to \$682 million the following year, to \$1,175 million in 1956 has been related almost entirely to increased expenditures for imports. From 1954 to 1955, Canadian imports from the United States increased by \$480 million, and from 1955 to 1956, the increase was \$745 million. On the other hand, and in spite of a considerable growth in some Canadian exports to the United States in which capacity has been rising such as petroleum, newsprint, and non-ferrous metals, exports rose from 1954 to 1955 by \$243 million, and from 1955 to 1956 by only \$252 million. Another important factor in the increased deficit with the United States in 1956 has been the growth in the deficit in "invisibles". High levels of production, investment, and income in Canada have resulted in increased net payments abroad for the whole range of non-merchandise items including travel, income, freight and shipping charges, engineering, and other business services.

Transactions with the United Kingdom in 1956 resulted in a fall in the 1955 surplus from \$341 million to \$251 million. This was the combined result of relatively larger imports and increased "invisible" payments. The United Kingdom increased her imports from Canada for grain and non-ferrous metals, but cut imports of lumber. Canadian imports from the United Kingdom showed substantial increases for construction and electrical equipment and machinery. The deficit in "invisibles" rose from \$26 million in 1955 to \$75 million in 1956. Receipts for non-merchandise items showed a variety of offsetting changes but remained relatively unchanged in total. An important point in this connection is the decline in income receipts from the United Kingdom as mentioned above in the comment on the fourth quarter deficit. Payments to the United Kingdom for non-merchandise items rose by \$38 million. The increases were spread over all the "invisible" items except inheritances and migrants' funds, which reflected a drop in emigration to the United Kingdom in 1956.

The surplus with all other overseas countries was only \$8 million in 1955 and increased to \$10 million in 1956. For the rest of the Sterling Area countries, a relatively small decline in exports and rise in imports, and increased Colombo Plan contributions, resulted in a drop in the surplus from \$60 to \$39 million in 1956. Merchandise exports and imports with other OEEC countries both rose by some \$100 million in 1956 leaving the appreciable trade surplus which had been \$152 million in 1955 substantially unchanged. But this export balance was largely offset by larger net payments for "invisibles", (travel, income, freight and military expenditures) and there was a resulting decline in the current surplus from \$30 million in 1955 to \$16 million in 1956. Exports to other overseas countries increased by \$121 million, primarily to Japan, Eastern Europe and Russia. A large part of this overall increase was in Canadian exports of wheat. Imports from other overseas countries increased by \$89 million, with significant increases from Latin America, Japan, Arabia and the Netherlands Antilles. The surplus in "invisible" items rose from \$5 million to \$10 million as a result of increased receipts from freight and shipping transactions and on income account, offset to some extent by larger expenditures of Canadians travelling abroad.

### New records set for direct investment and portfolio inflows

The net movement of foreign capital to Canada for direct investment in foreign controlled enterprises in 1956 is tentatively placed at \$525 million. This figure is more than 25 per cent larger than for



1955, representing an increase of nearly \$100 million over the previous record established in 1953. Net movements from the United States and from overseas countries each reached new heights. The proportion of the total movement coming from the United States fell slightly from the figure of 75 per cent recorded in 1955. Resource development and associated industries continued to attract the preponderant part of the total. The petroleum industry received larger amounts of foreign capital than ever before. Mining fell sharply with the completion of some major non-resident owned projects. Inflows into manufacturing showed a sharp increase in 1955, much of it related to basic resource and export industries and to the provision of industrial and construction materials. There were also significant direct investment inflows to holding and real estate companies.

Preliminary estimates of the net movement of capital from Canada for direct investment abroad indicate a net outflow of \$100 million in 1956. This figure, which represents a new record, is about half as large again as the amount for 1955. More than half this amount was to the United States. There were a number of major transactions during the year involving the acquisition by Canadian interests of control of existing enterprises abroad, the largest such transactions being in the merchandising field. Canadians also disposed of major interests in other ventures in which Canadian capital had long been dominant. Outflows to overseas countries were particularly large and were mainly in the field of mining.

It was in movements of portfolio security capital that the impact of heavy financing demands appeared most dramatically. During 1956 Canada imported some \$763 million; net, of capital through international security transactions. This tremendous figure compares with a capital export of \$50 million in 1955 and is considerably more than twice as large as the previous record net inflow established in the exceptional circumstances of 1950. Transactions in portfolio securities were a dominating feature of the international capital account in 1956, as the balance from these transactions exceeded for the first time in 1950 the net inflow for direct investment in foreign controlled enterprises. The net capital import from all portfolio security transactions included \$208 million from trade in outstanding Canadian issues, \$681 million from the sale to non-residents of new Canadian issues, offset to the extent of \$140 million by retirements of foreign-held Canadian securities. A net inflow of \$14 million occurred, on balance, from transactions in foreign securities.

A striking development in 1956 was the increased flow of portfolio investment capital from overseas countries to Canada. While the inflows were intensified with the growing international tension in the latter part of the year, the trend was unmistakable before the occurrence of political disturbances. The net inflow in the first half of 1956 was \$76 million, and in the second half it rose to \$169 million. The net movement from overseas countries reached \$245 million for the year as a whole compared with \$33 million in 1955 and with the previous post-war record of \$48 million in 1954. This change was influenced to a very marked extent by the absence in 1956 of major financing in the Canadian market by non-residents. But for the most part it reflected sharp growth in sales of outstanding Canadian securities both to the United States and to other overseas countries.

Notwithstanding the sharp increase in the portfolio capital movement from overseas, the United States was by far the most important source of external capital of this type. The net movement from that country amounted to \$518 million in 1956, in contrast to an outflow of \$83 million recorded in 1955. The prior post-war record for the net capital movement from the United States for all security transactions was \$382 million in 1950.

Trade in outstanding Canadian issues in 1956 was dominated by the sale to non-residents of Canadian common and preference stocks. The net sales balance for the year totalled \$196 million reflecting an increase of nearly one-third over 1955, and setting a new record for the third successive year. The inflow rose from \$29 million in the first quarter to new heights of \$62 million and \$77 million in the second and third quarters respectively, but fell in the final quarter to \$28 million. Compared to the significant inflow for equity portfolio investment in Canada, the trade in outstanding Canadian bonds, debentures and other securities led to a net inflow of only \$12 million. There was a substantial inflow of \$11 million in the first quarter, which exceeded the net sales of Canadian stocks in that period; this total included \$31 million Government of Canada direct and guaranteed issues and \$11 million corporate issues. In each of the later quarters there were outflows of capital from transactions in outstanding Canadian securities as Canadians became net repurchasers of this group of securities; during the nine months the net repatriation through repurchases amounted to \$34 million which included some \$25 million of Government of Canada direct and guaranteed issues.

Net sales of outstanding Canadian securities to the United States amounted to \$42 million in 1956, which included net sales of \$76 million of Canadian common and preference stocks offset by net repurchases of \$34 million of Canadian bonds, debentures and other securities. These figures are in sharp contrast to the results from security trading in 1955 when there was a net purchase balance or capital export of \$62 million. In that year Canadians sold to the residents of the United States \$97 million on account of outstanding Canadian common and preference stocks, but they repurchased \$159 million of outstanding Canadian bonds, debentures and other securities, which included \$82 million net repatriation of outstanding Government of Canada direct and guaranteed issues, and \$61 million of provincial issues. It has been revealed that during 1955 Government accounts were acquiring Government of Canada direct issues payable in United States dollars.

The group of eight special investment funds established by United States interests under circumstances described in previous reports continued to be an important influence in the Canadian stock market. Their holdings of Canadian securities, mainly common stocks, rose in market value during the year by some \$85 million. A part of this sum represented capital appreciation of their portfolios and is not reflected in the net sales of Canadian securities to residents of the United States. Nevertheless incomplete data suggest that these investors probably accounted for about \$70 million or more than 90 per cent of the net sales balance of \$76 million from trade in outstanding Canadian common and preference stocks with the United States. In 1955 the proportion was about 60 per cent. It is of particular interest to note that during the second half of 1956 these funds appear to have added to their holdings of Canadian stocks at a time when other United States investors as a group were reducing their portfolios.

Trade in outstanding Canadian issues with the United Kingdom and with other overseas countries also led to impressive capital inflows in 1956. For the fourth successive year since 1937, Canada had a sales balance from security trading with the United Kingdom. The capital import of \$83 million represented a sharp increase over the total of \$26 million recorded in 1955, and was actually larger than the total for the three years from 1953 to 1955. Particularly noteworthy in 1956 were the sales of Canadian common and preference stocks to residents of the United Kingdom, which amounted to \$72 million. The balance of the net movement represented sales of \$11 million of Canadian bonds, debentures and other securities. In the light of the very large movements, it is worth recalling that security sales to residents of the United Kingdom do not necessarily reflect current outflows of capital from that country. For example, it is possible that some transactions represent the switching by United Kingdom investors between their holdings of United States (and other dollar) securities and of Canadian securities. Moreover, some sales attributed in this report to the United Kingdom may be to nominees for non-residents of that country.

Transactions in outstanding Canadian securities with other countries led to a net capital inflow of \$83 million. This total compared with \$19 million in 1955 and was practically double the previous record set in 1954. The net sales included \$48 million of Canadian common and preference stocks compared with \$23 million in 1955, while there were net sales of \$35 million of other securities, mainly Government of Canada and corporate bonds, in contrast to net purchases of \$4 million in 1955.

# Summary of Capital Movements, 1953 to 1956

(millions of dollars)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	Change 1956 from 1955
Direct investment in Canada	+ 426	+ 376	+ 410	+ 525	+ 115
Direct investment abroad	- 63	- 74	- 67	- 100	- 33
Canadian securities					
Trade in outstanding stocks	+ 21	+ 121	+ 148	+ 196	+ 48
Trade in outstanding bonds	- 52	- 66	- 165	+ 12	+ 177
New issues	+ 335	+ 326	+ 166	+ 681	+ 515
Retirements	- 146	- 202	- 184	- 140	+ 44
Foreign securities	-	- 24	- 15	+ 14	+ 29
Official loan repayments	+ 87	+ 72	+ 69	+ 69	-
Canadian dollar holdings of foreigners	- 18	+ 22	+ 89	- 24	- 113
Official holdings of gold and foreign exchange (increase, -)	+ 38	- 124	+ 44	- 33	- 77
Other capital movements	- 185	+ 4	+ 197	+ 198	+ 1
Net capital movement financing current account deficit	+ 443	+ 431	+ 692	+ 1,398	+ 706



The proceeds of new issues of Canadian securities sold abroad set a new record of \$681 million in 1956. Over the last half of the year new issues were sold to non-residents at an annual rate of \$800 million. The total for the year compared with \$166 million in 1955 and with the previous record of \$411 million established in 1951 which was also a period of strong demand in the Canadian capital market. Provincial governments, municipalities and corporations were all substantial borrowers abroad during the year. Residents of the United States bought nearly 90 per cent of the new issues sold to non-residents compared with somewhat more than 75 per cent of the smaller total in 1955. But at the same time there was a significant increase in the amount of new issues sold to European investors. Nearly 90 per cent of the new bonds and debentures sold to non-residents were payable solely or optionally in foreign currencies. Retirements of foreign-held Canadian securities amounted during 1956 to \$140 million. This repatriation was lower than for any other post-war year except 1948 and 1952. A very substantial part of foreign-owned holdings retired during 1956, more than 95 per cent, was held by residents of the United States. Between 80 and 85 per cent of the bonds and debentures retired were payable optionally or solely in foreign currencies.

Transactions in outstanding foreign securities led to a net capital inflow of \$28 million during 1956 compared with \$16 million in 1955. During the first quarter of 1956 there was an outflow of \$16 million, when trading was dominated by a substantial participation by Canadian investors in a public redistribution of stock of an automobile company previously owned by a United States foundation. In the subsequent quarters of 1956 Canadians were net sellers of \$44 million foreign securities. The net movement for the year as a whole reflected on balance the sale by Canadians of foreign stocks, mainly of United States corporations. During the year Canadians purchased \$14 million of new issues of foreign securities. Retirements of Canadian-held foreign debt were negligible.

Additional details of portfolio security transactions between Canada and other countries and the influences affecting them will be found in the Dominion Bureau of Statistics report, "Sales and Purchases of Securities between Canada and Other Countries, December 1956, and Review of Security Trading During 1956".

#### Various other capital movements mixed but predominately inward

Repayments of principal on the war and post-war loans made by Canada to overseas governments amounted to \$69 million in 1956. This capital inflow was the same amount as in 1955. The Government of the United Kingdom repaid \$45 million and there were also receipts from Belgium, Czechoslovakia, France, the Netherlands, Norway and the USSR. The payment by the USSR was the final instalment due from that country. At the end of 1956 the outstanding balances on Canada's war and post-war loans of \$2,450 million amounted to \$1,531 million. There was in addition a further \$34 million owing to Canada on intergovernmental loans extended following World War I and on account of military relief settlements arising out of World War II.

An outflow of capital from Canada occurred in 1956 from a reduction of \$24 million in the holdings of Canadian dollars by non-residents. This outflow was in contrast to an inflow of \$89 million in 1955. Holdings by United States fell by \$49 million; in part this reflected the use by investment funds of cash held at the beginning of the year. Holdings by residents of the United Kingdom and other overseas countries rose by \$25 million; these holdings included \$22 million set aside by the Government of the United Kingdom to cover interest on the 1946 loan from Canada until a decision has been reached as to whether or not there will be a waiver of interest.

In the course of the operations of the Exchange Fund Account and the other exchange transactions of the Government during the year, the authorities increased official holdings of gold and foreign exchange. The net capital outflow amounted to \$33 million. There was a net inflow of \$1 million from reduced holdings of sterling, and an outflow of \$34 million in connection with Canada's official holdings of gold and United States dollars. These rose, in terms of United States dollars, from \$1,901 million at the end of 1955 to \$1,936 million at the end of 1956. A month-end low point of \$1,865 million was recorded in April, and the year-end figure was the highest month-end recorded.

Other capital movements were again an important element in balancing Canada's international accounts in 1956. The net inflow for the year was nearly \$200 million, about the same amount as in 1955. Details for 1956 are not yet available but there seems little doubt that in contrast to 1955 when about two-thirds of the net inflow reflected a drawing down of Canadian-owned bank balances and other short-term funds held abroad, in 1956 Canadians added very substantially to their holdings outside Canada. In part these increases represent the proceeds of new issues sold abroad which had not been transferred to Canada at the year-end. Other outflows included reductions in the short-term Canadian dollar holdings of the International Bank for Reconstruction and Development and of the International Monetary Fund, and the payment of Canada's subscription of \$3.6 million to the International Finance Corporation. These transactions with international organizations led to an outflow of \$20 million. It has been revealed by the International Monetary Fund that during the third quarter of the year Egypt purchased nearly \$15 million Canadian dollars from the Fund. This is the first occasion upon which the International Monetary Fund has sold Canadian dollars.



Against the outflows referred to in the preceding paragraph, there were large inflows in other forms. Borrowings by finance companies were substantial, and there were also significant capital transfers by financial institutions. And it seems clear in addition that a very large increase must have occurred in Canada's net liability on account of international receivables and payables, although at the moment only fragmentary evidence of these movements is available. An increased external liability on commercial account is consistent with the high level of trade to be financed and indeed to be expected in the condition of financial pressure existing in Canada in 1956. A similar substantial capital import in this form occurred in 1950 and 1951 when the credit stringency which was an aftermath of the action in Korea added to the short term inflows associated with exchange rate considerations. There was a reflux of this capital in 1952 and 1953.

#### Increase in Canada's Indebtedness to Other Countries

One leading consequence of the unprecedentedly heavy inflows of capital in recent years has been the increase in the total amount of foreign capital invested in Canada and the net indebtedness to other countries. These are now much higher than ever before. At the end of 1955 the total of non-resident long-term investments in Canada was \$13.5 billion. By the end of 1956 these had probably risen to more than \$15 billion when account is taken of re-investments of earnings in 1956 as well as the increase from the record volume of capital inflows. Canada's net international indebtedness which had risen from \$3.7 billion at the end of 1949 to \$7.8 billion in 1955 was at the end of 1956 well over \$9 billion.

The broad outlines of the recorded changes in foreign long-term investments in Canada and Canadian long-term investments abroad are presented in a table appearing at the end of this section. The recent rapid growth in the value of non-resident investments in Canada clearly stands out in the changes since 1949. The total amount of these investments has risen by 69% between 1949 and 1955. Most of this increase has occurred in direct investments in concerns which are controlled by non-residents. The value of this group of investments was more than double the value in 1949 in the case of investments controlled in each of the United States and the United Kingdom. And in the case of the small group of direct investment controlled in other countries the rise was fourfold. In the same period the rise in non-resident holdings of government and municipal bonds was relatively moderate while the increase in other portfolio investments mainly in public securities of Canadian controlled companies, was more than one-third.

About four-fifths of the rise in non-resident investment between 1949 and 1955 was in investments owned in the United States which had a value of \$10,289 million by the end of 1955. At the same time investments owned in the United Kingdom had risen to \$2,347 million and investments owned in other countries to \$832 million.

While comparable figures for 1956 are not yet available it would appear that proportionally much more of the rise in that year was in portfolio holdings than in the earlier period, although direct investments also continued to rise sharply. The rise in overseas investments in 1956 also accounted for relatively more of the total increase than in the longer period.

Selected Statistics of Canada's International Investment Position, 1945 - 1955

(Millions of dollars)

	1945	1949 <sup>(1)</sup>	1952	1953	1954	1955
<b>FOREIGN LONG-TERM INVESTMENTS</b>						
<b>IN CANADA OWNED BY:</b>						
<b>ALL NON-RESIDENTS</b>						
Direct investments	2,713	3,586	5,218	6,003	6,797	7,715
Government and municipal bonds	1,662	1,755	2,028	2,087	2,056	1,878
Other portfolio investments	2,433	2,320	2,692	2,904	3,163	3,234
Miscellaneous investments	284	302	447 <sup>(2)</sup>	467	561	641
TOTAL	7,092	7,963	10,385	11,461	12,577	13,468
<b>RESIDENTS OF THE UNITED STATES<sup>(3)</sup></b>						
Direct investments	2,304	3,095	4,530	5,206	5,815	6,517
Government and municipal bonds	1,450	1,534	1,835	1,870	1,822	1,649
Other portfolio investments	1,106	1,107	1,383	1,537	1,753	1,756
Miscellaneous investments	130	170	249 <sup>(2)</sup>	257	302	367
TOTAL	4,990	5,906	7,997	8,870	9,692	10,289
<b>RESIDENTS OF THE UNITED KINGDOM<sup>(3)</sup></b>						
Direct investments	348	428	544	612	763	883
Government and municipal bonds	157	171	136	150	144	141
Other portfolio investments	1,160	1,051	1,092	1,130	1,137	1,166
Miscellaneous investments	85	67	114 <sup>(2)</sup>	116	137	157
TOTAL	1,750	1,717	1,886	2,008	2,181	2,347
<b>RESIDENTS OF ALL OTHER COUNTRIES</b>						
Direct investments	61	63	144	185	219	315
Government and municipal bonds	55	50	57	67	90	88
Other portfolio investments	167	162	217	237	273	312
Miscellaneous investments	69	65	84 <sup>(2)</sup>	94	122	117
TOTAL	352	340	502	583	704	832
<b>CANADIAN LONG-TERM INVESTMENTS<sup>(4)</sup> IN</b>						
<b>ALL FOREIGN COUNTRIES</b>						
Direct investments	720	926	1,271	1,485	1,628	1,776
Portfolio investments	621	638	830 <sup>(2)</sup>	869	926	989
Government of Canada credits	707	2,000	1,866	1,778	1,705	1,635
TOTAL	2,048	3,564	3,967	4,132	4,259	4,400
<b>UNITED STATES</b>						
Direct investments	455	721	968	1,127	1,240	1,302
Portfolio investments	409	443	536 <sup>(2)</sup>	564	579	624
TOTAL	864	1,164	1,504	1,691	1,819	1,926
<b>UNITED KINGDOM</b>						
Direct investments	54	59	81	104	119	157
Portfolio investments	53	40	31	29	31	47
Government of Canada credits	561	1,434	1,357	1,292	1,247	1,202
TOTAL	668	1,533	1,469	1,425	1,397	1,406
<b>ALL OTHER COUNTRIES</b>						
Direct investments	211	146	222	254	269	317
Portfolio investments	159	155	263	276	316	318
Government of Canada credits	146	566	509	486	458	433
TOTAL	516	867	994	1,016	1,043	1,068

NOTES: Data represent book values. As the fiscal year-ends of some corporations do not correspond with the calendar year, comparisons of year to year changes with balance of payments data should be made with caution. The estimates are also affected by reclassifications between direct and portfolio series and by accounting adjustments in the basic data. Figures for 1955 are subject to revision.

(1) Prior to 1949 Newfoundland was classified as an "other country".

(2) New series not strictly comparable with earlier years.

(3) Including some investments held as nominees for other countries.

(4) Excluding investments of insurance companies and banks, and subscriptions by the Government of Canada to the IMF and IBRD, but including the equity of non-residents in assets abroad of Canadian companies.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1956 are preliminary and

		1954		1955		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,002	1,062	967	1,098	1,127
3	Gold production available for export .....	39	38	39	39	37
4	Travel expenditures .....	172	50	26	66	182
5	Interest and dividends .....	23	67	25	34	28
6	Freight and shipping.....	83	82	82	95	101
7	Inheritances and immigrants' funds .....	24	19	16	25	24
11	All other current receipts .....	81	80	78	105	106
12	<b>Total Current Receipts.....</b>	<b>1,424</b>	<b>1,398</b>	<b>1,233</b>	<b>1,462</b>	<b>1,605</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	941	984	971	1,148	1,163
4	Travel expenditures .....	134	88	78	119	156
5	Interest and dividends .....	85	156	121	108	93
6	Freight and shipping.....	99	94	77	106	110
7	Inheritances and emigrants' funds .....	25	25	22	24	28
9	Official contributions .....	2	3	5	4	8
11	All other current payments.....	118	128	133	127	136
12	<b>Total Current Payments .....</b>	<b>1,404</b>	<b>1,478</b>	<b>1,407</b>	<b>1,636</b>	<b>1,694</b>
	Balance on Merchandise Trade .....	+ 61	+ 78	- 4	- 50	- 36
	Balance on Other Transactions, excluding B 9 .....	- 39	- 155	- 165	- 120	- 45
	Official Contributions.....	- 2	- 3	- 5	- 4	- 8
<b>C</b>	<b>Current Account Balance .....</b>	<b>+ 20</b>	<b>- 80</b>	<b>- 174</b>	<b>- 174</b>	<b>- 89</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 77	+ 124	+ 87	+ 111	+ 101
2	Direct investment abroad .....	- 30	- 22	- 8	- 9	- 12
	Canadian Securities					
3	Trade in outstanding issues .....	+ 1	+ 18	- 31	+ 7	- 21
4	New issues.....	+ 36	+ 25	+ 109	+ 29	+ 16
5	Retirements .....	- 47	- 54	- 85	- 62	- 18
	Foreign Securities					
6	Trade in outstanding issues .....	- 1	- 5	+ 12	- 8	+ 4
7	New issues.....	- 3	- 2	- 5	- 17	- 4
8	Retirements .....	-	+ 2	+ 3	-	+ 14
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 3	+ 26	-	+ 10	+ 2
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners ..	+ 10	+ 28	+ 30	+ 39	+ 6
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 38	- 45	+ 71	- 56	- 7
17	Other capital movements .....	- 35	- 23	- 16	+ 122	+ 1
<b>E</b>	<b>Net Capital Movement.....</b>	<b>- 20</b>	<b>+ 80</b>	<b>+ 174</b>	<b>+ 174</b>	<b>+ 89</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, insurance transactions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

data for 1955 are subject to revision.

1955	1 9 5 6				Annual Totals				
IV	I	II	III	IV	1953	1954	1955	1956	
(millions of dollars)									
1,140	1,051	1,262	1,247	1,274	4,152	3,929	4,332	4,834	A
40	37	40	38	35	144	155	155	150	1
54	26	65	191	53	302	305	328	335	3
73	35	40	23	43	165	147	160	141	4
107	98	113	114	114	318	313	385	439	5
21	18	26	27	27	91	89	86	98	6
104	95	107	106	103	319	298	393	411	7
									11
1,539	1,360	1,653	1,746	1,649	5,491	5,236	5,839	6,408	12
									B
1,258	1,241	1,541	1,347	1,439	4,210	3,916	4,540	5,568	1
96	90	132	173	102	365	389	449	497	4
155	114	118	126	172	404	423	477	530	5
115	99	132	128	130	374	356	408	489	6
27	23	28	29	27	91	94	101	107	7
7	9	10	4	6	25	11	24	29	9
136	142	139	157	148	465	479	532	586	11
1,794	1,718	2,100	1,964	2,024	5,934	5,668	6,531	7,806	12
- 118	- 190	- 279	- 100	- 165	- 58	+ 13	- 208	- 734	
- 130	- 159	- 158	- 114	- 204	- 360	- 434	- 460	- 635	
- 7	- 9	- 10	- 4	- 6	- 25	- 11	- 24	- 29	
- 255	- 358	- 447	- 218	- 375	- 443	- 432	- 692	-1,398	C
									D
+ 111	+ 105	+ 150	+ 120	+ 150	+ 426	+ 392	+ 410	+ 525	1
- 38	- 50	- 5	- 25	- 20	- 63	- 81	- 67	- 100	2
+ 28	+ 75	+ 48	+ 69	+ 16	- 31	+ 63	- 17	+ 208	3
+ 12	+ 106	+ 173	+ 202	+ 200	+ 335	+ 331	+ 166	+ 681	4
- 19	- 69	- 26	- 24	- 21	- 146	- 203	- 184	- 140	5
+ 8	- 16	+ 10	+ 10	+ 24	+ 22	+ 7	+ 16	+ 28	6
- 22	- 1	- 5	- 3	- 5	- 23	- 33	- 48	- 14	7
-	-	-	-	-	+ 1	+ 2	+ 17	-	8
+ 27	-	+ 13	-	+ 26	+ 37	+ 42	+ 39	+ 39	10
+ 8	+ 7	+ 8	+ 7	+ 8	+ 50	+ 30	+ 30	+ 30	11
+ 14	- 22	- 5	- 2	+ 5	- 18	+ 34	+ 89	- 24	14
+ 36	+ 29	- 30	- 5	- 27	+ 38	- 124	+ 44	- 33	16
+ 90	+ 194	+ 116	- 131	+ 19	- 185	- 28	+ 197	+ 198	17
+ 255	+ 358	+ 447	+ 218	+ 375	+ 443	+ 432	+ 692	+1,398	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.









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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
FIRST QUARTER, 1957

A larger increase in payments to other countries for goods and services than in receipts, led to a widening of the current account deficit in the first quarter of 1957. This arose both with transactions in commodities and in services and other items. The resulting deficit of \$409 million compares with \$363 million in the first quarter 1956 and has been exceeded only by the deficit of \$435 million in the second quarter of last year. While payments continued to rise more than receipts the rate of increase in both current receipts and expenditures has been more moderate than in any quarter last year. And the rise in the deficit of some 13 per cent compares with a doubling of the deficit in each of the first three quarters of 1956 over corresponding quarters of 1955. In relative terms, the 1957 deficit established a new record in the post-war years in representing almost 29 per cent of total receipts as compared to ratios of less than 27 per cent in the first and second quarters of last year.

The major factor contributing to the size of the deficit was once more the imbalance of merchandise trade which has been a prominent source since the final quarter of 1955. In absolute terms, the merchandise trade deficit this year, like the overall deficit, has been exceeded only by the imbalance in the second quarter of 1956. At the same time the imbalance in services and other current items continued to be greater relatively, and the deficit from these transactions showed a growth that has been consistent for a period of years.

The size of the current deficit served to indicate the continuation into the first three months of 1957 of those forces which underlaid the growing deficits in 1955 and 1956. The high rate of expansion in Canada and the accompanying levels of economic activity maintained the pressure of demand for imported goods and services, and external resources, both physical and financial, have been drawn upon. Canadian need of industrial machinery, and building and engineering materials was still providing the backbone of the recent extra-ordinary import demand. A continuation of high levels of economic activity, so evident in 1956 in the United States and overseas, has maintained demands for many Canadian exports, and led to further growth in exports of some commodities in which Canadian capacity is rising. But besides the decline in wheat sales there is evidence of some softening of the demand for certain other Canadian exports in some markets. And a moderating in the rate of increase for some imports has occurred, although many imports remained at record levels as has been the case with total imports of goods and services.

Continued rise in the merchandise deficit

The \$224 million deficit on merchandise transactions in the first quarter of 1957 was some \$33 million above the deficit in the same quarter of 1956. Imports (adjusted to balance of payments definitions) increased from \$1,242 million to \$1,327 million, almost 7 per cent, and exports (adjusted) increased from \$1,051 million to \$1,103 million, 5 per cent. With both export and import prices some 2 per cent above those current in the corresponding period of 1956, there was no significant change in the terms of trade, and increases in the volume of merchandise transactions were not much less than the comparable changes in values.

Prepared in the Balance of Payments Section, International Trade Division.

7503-509-37

The same general types of underlying demand appear to have been responsible for the continued expansion of Canadian imports in the first quarter of 1957 as were unusually prominent in 1956. The substantial proportions of imports relating to the high level of investment activity in Canada have continued to be an outstanding feature. From details so far available it would seem that these proportions may have increased in 1957 with almost all of the increase over the corresponding quarter last year being in metal products, most notable in machinery, electrical equipment, steel and pipes. In only a few cases were imports of major commodities less than in the previous year, and some of these instances were due to unusual non-recurring conditions last year. Most of the increase in imports in the first quarter this year was from the United States and the United Kingdom. The United States continued to supply some three-quarters of the total, but the rate of increase in imports from the United Kingdom was sharper. The total imported from other overseas countries was about the same with offsetting trends in different commodities.

While Canada's exports rose in total volume and value in the first quarter, this was not the result of as general an upward trend as has been typical of rises since 1954. The larger increases were concentrated in fewer commodities and in certain markets, and there were more instances of reductions or relative stability in value than in recent years. Commodities showing the most notable gains included petroleum, aluminum, uranium, steel, barley, seeds and used ships. Declines were most evident in lumber and other construction materials, wheat, copper and several other base metals and products, and some agricultural products, and in major exports of secondary industry like agricultural implements and aircraft.

Variability in trends was characteristic of exports to the United States with the result that there was virtual stability in the total value of shipments to that country. Growing exports to the United States of commodities like petroleum and other fuels, uranium and aluminum were partly offset by some contractions most notable of which were in lumber and other construction materials and in some manufactured goods. Exports to the United Kingdom were down in total with the larger declines being in wheat, lumber and newsprint, but there were gains in certain other agricultural commodities and in some industrial materials to that country. In contrast, exports to other areas overseas were at exceptionally high levels for the first quarter. There were marked gains to each of Europe, Latin America, and Asia, but Commonwealth countries were an exception with declines to most areas. Forest products and metals were generally higher to overseas countries other than the United Kingdom. Clearances of wheat to the same group of countries were down. But there were rises in exports of barley and seeds to Western Europe, the area which continued to be a strong source of demands for industrial materials. Substantial sales of used ships to Latin America were a special contributor to the rise overseas, and more agricultural products and metals led to a large increase in exports to Japan.

#### Deficit from transactions in services and other non-merchandise items

While the deficit in non-merchandise transactions declined in the first quarter of 1957 from the peak reached in the final quarter of last year, it remained, nevertheless, well above the level of earlier quarters. The increase over the first quarter of 1956 was some \$13 million. The outstanding net change in relation to the same quarter last year resulted from a decline in receipts and a rise in payments of investment income. Several Canadian controlled companies in the United States and overseas remitted smaller amounts to Canada. At the same time, there was a substantial increase in income payments to non-residents, which may be attributed to some extent to higher dividend rates and increasing foreign ownership of Canadian securities. Largely as a result of increased shipping rates and a record volume of imports, there was a change from a small balance of net receipts on freight and shipping in the first quarter of 1956 to a larger balance of net payments in 1957. In addition there was a small increase in the large deficit on travel account which normally occurs in the first quarter. The effect of these larger net payments was somewhat offset by opposite movements in the rest of the "invisible" items. During the first three months of 1957, migration to Canada rose to some 62,500 from 19,000 in the same period last year. This influx resulted in extra-ordinary receipts of migrants' funds. There was a small increase in gold available for export, and a decline in official contributions, primarily expenditures in connection with the Colombo Plan program. Other miscellaneous items showed a smaller net deficit, mainly as a result of relatively lower government expenditures and fiscal year-end settlements abroad.

#### Transactions by areas

The most prominent feature of the geographical distribution of the large first quarter deficit was the continued growth of the deficit with the United States, and the decline in the surplus with overseas countries. At \$475 million, the deficit with the United States was \$61 million above the first quarter of 1956. This increase was more than accounted for by the rise in merchandise imports which were almost 8 per cent above last year. Both in total and for goods alone, the deficit with the United States has been exceeded only once in recent years. The overall balance on non-merchandise items remained relatively unchanged, with higher net payments of income and for shipping partially offset by small declines elsewhere.

The first quarter surplus with the United Kingdom fell to \$29 million, the smallest in several years.



This resulted from rising imports, reduced exports, and an enlarged deficit on "invisibles". Imports rose with the need for equipment for the Canadian investment program and other demands continuing strong; at the same time there was some falling off in demand for Canadian grain, lumber, and newsprint in the United Kingdom, although exports of some commodities to that market rose. The largest change in receipts and expenditures for invisible items was related to the inflow of migrants' funds mentioned above. The surplus with the rest of the sterling area remained relatively unchanged from the end of last year, but was down from the first quarter.

For the first time in two years, the surplus with the OEEC countries rose to moderate proportions. As compared to the same quarter of 1956 the largest change was in exports which were up some \$30 million, with rises generally distributed to a number of countries. The deficit with all other countries continued into 1957, but at a lower level. Again the principal change was in exports to these countries, which have increased particularly to Japan and Latin America. In contrast imports from these groups of overseas countries and the balance on "invisibles" did not change much in total in the first quarter.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries

First Quarter 1956 and 1957

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1956	1957	1956	1957	1956	1957	1956	1957
Exports (adjusted)	1,051	1,103	639	654	180	163	232	286
Imports (adjusted)	1,242	1,327	932	1,002	97	111	213	214
Balance on trade	-191	-224	-293	-348	+ 83	+ 52	+ 19	+ 72
Balance on "invisibles"	-172	-185	-121	-127	- 15	- 23	- 36	- 35
Current account balance	-363	-409	-414	-475	+ 68	+ 29	- 17	+ 37

Capital movements

Capital movements in long-term forms between Canada and other countries in the first quarter were almost double the size of these net inflows in the corresponding quarter of 1956. New issues of securities in particular were much greater than they were earlier. But comparing the first quarter of 1957 with the final quarter of 1956, the principal change has been a sharp reduction in net direct investment inflows to which further reference will be made below. Proceeds of transactions in Canadian portfolio securities were somewhat larger than in the earlier period, but there were significant outflows from transactions in foreign securities. Repayments of principal falling due on Canadian government loans to overseas governments were, as usual in the first quarter, much smaller than in the fourth quarter. All in all, net inflows in the foregoing forms fell to \$319 million in the first quarter of 1957 compared with \$427 million in the preceding quarter, in a period with an enlarged deficit from current account transactions. Major changes also took place in the other capital movements which served to finance the balance of the deficit in the first quarter and which will be discussed below.

A sharp contraction occurred during the first quarter of 1957 in the rate of capital inflow for long-term direct investment in foreign-controlled enterprises in Canada. The net movement is tentatively placed at \$100 million, which is the lowest level recorded since the first quarter of 1955. But, as much of this change may be attributed to several special transactions, the significance of the decline from a record level of \$185 million in the fourth quarter of 1956 should not be over-emphasized. For example in the final quarter of 1956 there was an extraordinarily large receipt representing the subscription of a parent company to an offering of shares to existing shareholders of a Canadian petroleum company as well as the acquisition by United States interest of a controlling interest in a major Canadian food-processing company. On the other hand the net inward movement in the first quarter of 1957 was reduced by the purchase by a Canadian company of a significant minority interest in a manufacturer of electrical materials. These

three transactions alone accounted for some \$80 million of the difference between the two quarters. Although, of course, in absolute terms by far the largest part of the decline was attributable to the inflow of United States capital, a particularly sharp reduction appears to have occurred in the net movement from the United Kingdom.

The net outflow of Canadian capital for direct investment abroad is tentatively placed at \$20 million or somewhat more than in the final quarter of 1956.

Transactions in Canadian portfolio securities led to a capital inflow of \$246 million or an increase of \$40 million over the preceding quarter. There was a substantially increased sales balance from trading in outstanding Canadian stocks, while net repurchases of outstanding bonds were reduced. United Kingdom investors accounted for \$34 million out of \$41 million net sales of outstanding securities. Most of the capital inflow took the form of new issues of Canadian securities sold to non-residents; the proceeds of these transactions amounted to \$248 million. Included were \$133 million of corporation bonds, \$64 million of provincial direct and guaranteed issues, \$34 million of municipals, and \$17 million of stocks. Retirements of foreign-held Canadian securities totalled \$43 million, of which \$17 million represented Canadian bonds and debentures, and the balance Canadian stocks.

Transactions in foreign portfolio securities resulted in a capital outflow of \$14 million in contrast to the inflow of \$17 million recorded in the final quarter of 1956. The largest part of this change occurred as Canadian investors became net purchasers of \$3 million of foreign stocks; in the preceding quarter there had been net sales of \$25 million.

Repayments on Canadian government loans to overseas countries were limited as usual during the first quarter to receipt of \$7.5 million from the United Kingdom.

Among capital movements of a generally more short-term nature was an outflow of \$31 million reflecting reductions in holdings of Canadian dollars by non-residents. Holdings by United States residents remained practically unchanged, and the reduction was divided about equally between accounts of residents of the United Kingdom and of other overseas countries. A capital inflow of \$13 million occurred from changes in official holdings of gold and foreign exchange. Official holdings of gold and United States dollars, expressed in terms of United States funds, were reduced in the course of the operations of the Exchange Fund account, and the other exchange transactions of the Government from \$1,936.2 million at the turn of the year, the record month-end holding, to \$1,923.6 million at the end of March.

All other capital movements appear to have resulted in a net capital inflow of \$108 million during the quarter. As readers of these reports will know, this category of international capital movements embraces a wide and varied group of transactions, both inward and outward in direction. Among those recorded in the quarter currently under review were progress payments on industrial contracts, bank loans, changes in inter-company account balances, and in Canadian dollars held by the International Bank for Reconstruction and Development, borrowings and repayments by Canadian finance companies, transfers by insurance companies, a Canadian Government loan to the United Nations, outflows of capital arising from the disposal of Canada's wartime merchant fleet, and changes in private and banking holdings of foreign exchange. In this quarter the measured movements in these categories totalled several hundreds of millions of dollars, although their net balance was relatively small. There seems little doubt that the remainder of the other capital movements, which is not susceptible of direct quarterly measurement, covers significant changes in international accounts receivable and payable which are themselves greatly influenced by short-run changes in the trade balance.

The Canadian dollar showed great strength on the international exchange markets during the first quarter. The noon average price of the United States dollar expressed in Canadian currency was 95.84 cents, compared with 96.62 cents in the preceding quarter, setting a new post-war low. The low quotation of 95.50 reached in March was also a post-war record. There was remarkable stability in the exchange rate throughout the quarter, and the spread between the high and low quotations amounted to only 0.84 cents.

It will be noted that revised figures for 1955 and 1956 have been incorporated in the statements and table in this report. Additional details will be made available in the forthcoming annual report "The Canadian Balance of International Payments, 1956, and International Investment Position".

Summary of Capital Movements, by quarters, 1955 - 1957

(millions of dollars)

	1955	1956				1957
	IV	I	II	III	IV	I
Direct investment in Canada	+113	+121	+169	+120	+185	+100
Direct investment abroad	- 39	- 66	- 5	- 24	- 15	- 20
Canadian securities						
Trade in outstanding stocks	+ 10	+ 31	+ 57	+ 78	+ 29	+ 43
Trade in outstanding bonds	+ 15	+ 46	- 14	- 8	- 12	- 2
New issues	+ 13	+111	+181	+178	+211	+248
Retirements	- 18	- 71	- 23	- 24	- 22	- 43
Foreign securities	- 11	- 17	+ 5	+ 7	+ 17	- 14
Official loan repayments	+ 35	+ 7	+ 21	+ 7	+ 34	+ 7
Canadian dollar holdings of foreigners	+ 14	- 23	- 5	- 3	+ 5	- 31
Official holdings of gold and foreign exchange (increase, -)	+ 36	+ 29	- 30	- 5	- 27	+ 13
Other capital movements	+ 97	+195	+ 79	-122	- 35	+108
Net capital movement financing current account deficit	+265	+363	+435	+204	+370	+409



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and

		1954	1955			
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,062	967	1,098	1,127	1,140
3	Gold production available for export .....	38	39	39	37	40
4	Travel expenditures .....	50	26	66	182	54
5	Interest and dividends .....	67	26	32	27	75
6	Freight and shipping.....	82	82	100	108	108
7	Inheritances and immigrants' funds .....	19	16	25	24	21
11	All other current receipts .....	80	77	105	105	104
12	<b>Total Current Receipts</b> .....	<b>1,398</b>	<b>1,233</b>	<b>1,465</b>	<b>1,610</b>	<b>1,542</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	984	971	1,150	1,163	1,259
4	Travel expenditures .....	88	78	119	156	96
5	Interest and dividends .....	156	131	99	91	162
6	Freight and shipping.....	94	78	108	113	116
7	Inheritances and emigrants' funds .....	25	21	23	30	31
9	Official contributions .....	3	5	4	8	7
11	All other current payments.....	128	134	125	134	136
12	<b>Total Current Payments</b> .....	<b>1,478</b>	<b>1,418</b>	<b>1,628</b>	<b>1,695</b>	<b>1,807</b>
	Balance on Merchandise Trade .....	+ 78	- 4	- 52	- 36	- 119
	Balance on Other Transactions, excluding B 9 .....	- 155	- 176	- 107	- 41	- 139
	Official Contributions.....	- 3	- 5	- 4	- 8	- 7
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 80</b>	<b>- 185</b>	<b>- 163</b>	<b>- 85</b>	<b>- 265</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 124	+ 85	+ 115	+ 104	+ 113
2	Direct investment abroad .....	- 22	- 11	- 12	- 12	- 39
	Canadian Securities					
3	Trade in outstanding issues .....	+ 18	- 33	+ 5	- 24	+ 25
4	New issues.....	+ 25	+ 109	+ 27	+ 17	+ 13
5	Retirements .....	- 54	- 86	- 61	- 19	- 18
	Foreign Securities					
6	Trade in outstanding issues .....	- 5	+ 14	- 6	+ 6	+ 11
7	New issues.....	- 2	- 5	- 17	- 4	- 22
8	Retirements .....	+ 2	+ 3	-	+ 14	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 26	-	+ 10	+ 2	+ 27
11	Repayment of war loans.....	+ 8	+ 7	+ 8	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners ..	+ 28	+ 30	+ 39	+ 6	+ 14
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 45	+ 71	- 56	- 7	+ 36
17	Other capital movements .....	- 23	+ 1	+ 111	- 5	+ 97
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 80</b>	<b>+ 185</b>	<b>+ 163</b>	<b>+ 85</b>	<b>+ 265</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.

## BALANCE OF INTERNATIONAL PAYMENTS

data for 1956 are subject to revision.

1956				1957	Annual Totals			Four Quarters ending March 31, 1957	
I	II	III	IV	I	1954	1955	1956		
(millions of dollars)									
1,051	1,263	1,246	1,273	1,103	3,929	4,332	4,833	4,885	A
37	40	38	35	39	155	155	150	152	1
26	65	191	54	30	305	328	336	340	3
35	39	25	41	24	147	160	140	129	4
102	115	117	116	104	313	398	450	452	5
17	28	26	27	29	89	86	98	110	6
91	112	108	119	98	298	391	430	437	7
									11
1,359	1,662	1,751	1,665	1,427	5,236	5,850	6,437	6,505	12
1,242	1,541	1,350	1,434	1,327	3,916	4,543	5,567	5,652	B
93	133	169	103	99	389	449	498	504	1
112	116	121	181	126	423	483	530	544	4
99	134	131	134	109	356	415	498	508	5
25	28	29	30	25	94	105	112	112	6
9	10	5	6	7	11	24	30	28	7
142	135	150	147	143	479	529	574	575	9
									11
1,722	2,097	1,955	2,035	1,836	5,668	6,548	7,809	7,923	12
191	- 278	- 104	- 161	- 224	+ 13	- 211	- 734	- 767	
- 163	- 147	- 95	- 203	- 178	- 434	- 463	- 608	- 623	
- 9	- 10	- 5	- 6	- 7	- 11	- 24	- 30	- 28	
- 363	- 435	- 204	- 370	- 409	- 432	- 698	-1,372	-1,418	C
									D
+ 121	+ 169	+ 120	+ 185	+ 100	+ 392	+ 417	+ 595	+ 574	1
- 66	- 5	- 24	- 15	- 20	- 81	- 74	- 110	- 64	2
+ 77	+ 43	+ 70	+ 17	+ 41	+ 63	- 27	+ 207	+ 171	3
+ 111	+ 181	+ 178	+ 211	+ 248	+ 331	+ 166	+ 681	+ 818	4
- 71	- 23	- 24	- 22	- 43	- 203	- 184	- 140	- 112	5
- 16	+ 10	+ 10	+ 23	- 11	+ 7	+ 25	+ 27	+ 32	6
- 1	- 5	- 3	- 6	- 4	- 33	- 48	- 15	- 18	7
-	-	-	-	+ 1	+ 2	+ 17	-	+ 1	8
-	+ 13	-	+ 26	-	+ 42	+ 39	+ 39	+ 39	10
+ 7	+ 8	+ 7	+ 8	+ 7	+ 30	+ 30	+ 30	+ 30	11
- 23	- 5	- 3	+ 5	- 31	+ 34	+ 89	- 26	- 34	14
+ 29	- 30	- 5	- 27	+ 13	- 124	+ 44	- 33	- 49	16
+ 195	+ 79	- 122	- 35	+ 108	- 28	+ 204	+ 117	+ 30	17
+ 363	+ 435	+ 204	+ 370	+ 409	+ 432	+ 698	+1,372	+1,418	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.





DOMINION BUREAU OF STATISTICS

OTTAWA - CANADA

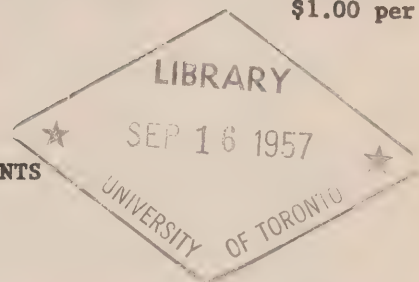


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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
SECOND QUARTER, 1957



The current deficit widened to a new record of \$507 million in the second quarter bringing this balance for the half year to \$914 million. These figures compare with \$435 million and \$798 million respectively for the same two periods of 1956. The widened imbalance from the second quarter last year resulted from reduced receipts from merchandise exports and moderately higher payments for imports other than merchandise. A larger deficit on merchandise account provided only \$22 million of the increase with the remaining \$485 million originating in the larger deficit from other current transactions which made up some two-fifths of the total deficit.

The drop in current receipts is in contrast to the succession of rises occurring for several years but the decline of \$40 million amounting to less than 3 per cent was relatively small, and is much less than the drop of \$95 million in wheat clearances in the quarter which were only about one-half the value of a year earlier when they were at a most exceptionally high level. A slight rise in total current payments was offset even with a small reduction in merchandise imports in the month of June.

At 31 per cent of current receipts in the second quarter the deficit was larger in relative terms than in any recent period, comparing with 28 per cent in the first quarter and less than 27 per cent in the second half of last year. But this increase in the second quarter was partly due to reduced receipts as well as to the enlarged gap. The absence of a rise in both merchandise exports and imports is in contrast to the upward trends which had been evident until recently when the high rate of expansion in the economy was a leading element in the general background. The continued high degree of economic activity with investment and investment at exceptionally high levels, and the pressures of demands associated with these, were factors contributing to large imbalance in the quarter. But some of the widened imbalance was due to the decline in wheat sales, and to factors affecting non-merchandise items which were not so closely related to the pressures as the rising levels of merchandise trade in recent years. But merchandise imports were higher in value than in any quarter other than the second quarter of last year.

Moderate rise in merchandise deficit

Of the \$72 million advance in the current account deficit from the second quarter of 1956 to 1957, \$42 million or less than one-third related to commodity trade, whereas from 1955 to 1956 the gain in merchandise deficit accounted for over three-quarters of the gain in the total deficit. These figures indicate a decline in the importance of the merchandise trade balance as a contributor to the rise in the current deficit, and some shift in emphasis from the pattern which prevailed in 1955 and 1956, although the merchandise imbalance was higher than ever before and continued to constitute some three-fifths of the current deficit. Both exports and imports registered the smallest quarterly increases for several years in the first quarter of 1957, and in the second quarter, the series declined by 4 and 2 per cent respectively. As a result, the six-month increase was negligible for exports, and 2 per cent for imports.

and in the Balance of Payments Section, International Trade Division.

19-67

The increase of \$22 million in the merchandise trade deficit from the second quarter last year was the result of a sharp decline in the surplus with overseas countries, offset to some extent by a drop in the deficit with the United States. This decline in the second quarter with the United States was primarily related to a drop in imports from that country, and as it was not sufficient to offset the increased deficit in the first quarter, the deficit for the first six months with that country rose by \$16 million. The merchandise surplus with overseas countries for the first six months fell to \$181 million under the influence of reduced sales of wheat. In the second quarter there was a decline of \$60 million in this surplus.

The gain in import prices in the second quarter was appreciably larger than the marginal gain in export prices as compared to last year, and the terms of trade showed some deterioration accordingly.

While total exports in the second quarter this year were \$49 million lower than in the same period last year, this decline was less than the drop in wheat clearances (used in this series) of some \$95 million. Exports of all other commodities were about 4 per cent higher in total although trends in individual commodities became more mixed. The rise in the total of these other commodities was less than in the first quarter when it was almost 8 per cent higher than last year, a rate of increase which was also close to the rise in these commodities in the whole year 1956 over 1955. The decline in exports of wheat from the levels of the second and third quarters of 1956 when they were at their greatest volume for several years has been particularly sharp and contrasts with large gains in exports from some countries of wheat supply like the United States. The movement of wheat in the second quarter this year was down to about one-half of the peak level in the same quarter last year.

In the six months of 1957 total exports were up only slightly, but this was chiefly due to the decline in wheat. In this period also a drop in wheat clearances of \$115 million (used in this series) is the largest single change as was the case in each quarter. Exports of all other commodities rose \$117 million, a gain of almost 6 per cent. A large part of these gains was concentrated in a small number of commodities including, in the order of their size, petroleum, seeds, aluminum, uranium, used ships, and nickel. Exports of this group of commodities rose by \$144 million, or by some 46 per cent. Another group of commodities showing proportionally large increases included tobacco, rolling mill products, primary steel and non-farm machinery. There were other instances of important export staples which either rose more moderately than the above or remained relatively unchanged. Among these were grains other than wheat, fur, newsprint and other paper, pulp and pulp wood, iron ore, automobiles, lead and zinc, asbestos, abrasives, and chemicals generally.

Offsetting part of the increases from trade in the above commodities were declines in a relatively small number of instances. The largest of these declines were in lumber, copper, and aircraft which together showed drops of some \$58 million, or about 20 per cent of their total. But there were also declines in such commodities as fish, meats, flour, farm machinery and precious metals.

The small increase in total exports for the half year was mainly due to a slight rise in exports to the United States and relatively larger gains to OEEC and many other foreign countries which were more than enough to offset declines to the United Kingdom and the rest of the sterling area. In exports to the United States there were a variety of opposite trends. Increases in such exports as petroleum, and non-ferrous metals including uranium, aluminum, and nickel, and in newsprint were greater than drops in lumber and other forest products and in the totals of agricultural and animal products. In exports to Europe and other foreign countries there were general increases in forest products, iron and products and non-ferrous metals which more than offset the substantial decline in exports of wheat which was most concentrated with these countries. With the United Kingdom the chief source of the decline was also in wheat with only moderate declines in other groups of commodities.

Imports in the first half of 1957 were some 2 per cent higher than in the same period of the previous year. This increase, however, occurred in the first quarter. The total value of imports in the second quarter was slightly lower than in the same period last year. Imports from each of the main sources were also higher in the six months, but during the second quarter there were divergent trends in comparison to the same period last year. The decline in total imports which occurred in the second quarter was in imports from the United States which were some 4 per cent lower in value, but on the other hand imports were higher in the second quarter in the case of those originating in the rest of the Sterling Area, and OEEC countries.

Much of the same underlying commodity pattern continued to be shown during the half year as has been evident throughout the recent period of exceptionally high investment activity. This year, as during last year, the most marked gains in imports have been in groups of commodities comprising investment goods or materials used in producing durable goods. Examples of these are provided by machinery and equipment for primary and secondary industry, electrical apparatus, and pipe and industrial materials such as steel rolling mill products. Other industrial materials have also continued to be unusually high with a particularly notable increase in crude petroleum. While increases have been general in the period as a whole, there have been some instances of declines. But some of these, as in the case of imports of automobiles, were due to abnormal situations of supply last year which did not recur.



Summary of Current Transactions with the

United States, United Kingdom and Other Countries, 1956 and 1957

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1956	1957	1956	1957	1956	1957	1956	1957
<u>Second quarter</u>								
Merchandise exports (adjusted)	1,263	1,214	721	723	199	181	343	310
Merchandise imports (adjusted)	1,541	1,514	1,118	1,082	149	143	274	289
Balance on merchandise trade	-278	-300	-397	-359	+ 50	+ 38	+ 69	+ 21
Balance on non-merchandise trade	-157	-207	-130	-175	- 15	- 10	- 12	- 22
Current account balance	-435	-507	-527	-534	+ 35	+ 28	+ 57	- 1
<u>January to June</u>								
Merchandise exports (adjusted)	2,314	2,316	1,360	1,377	379	344	575	595
Merchandise imports (adjusted)	2,783	2,841	2,050	2,083	246	257	487	501
Balance on merchandise trade	-469	-525	-690	-706	+133	+ 87	+ 88	+ 94
Balance on non-merchandise trade	-329	-389	-251	-297	- 30	- 35	- 48	- 57
Current account balance	-798	-914	-941	-1,003	+103	+ 52	+ 40	+ 37

Deficit from transactions in services and other non-merchandise items

In the second quarter of 1957, the non-merchandise deficit played a more prominent part in the overall increase in the deficit than has been the case for several quarters past; of the total increase in the deficit of \$72 million over the second quarter of 1956, some \$50 million was related to "invisible" items. The deficit in non-commodity account rose to \$207 million in the second quarter, a level exceeded only in the final quarter of 1956, and one which would probably establish a record if seasonal patterns were taken into account. For the first six months of 1957, the deficit was some \$389 million as compared to \$329 million in the first half of last year.

The largest advance occurred in income payments abroad as a result of remittances by the growing number of non-resident owned branches and subsidiaries, and of rising interest and dividend payments on the increased non-resident portfolio holdings of Canadian stocks and bonds. The other factor contributing to the deficit was a substantial increase in payments for freight and shipping services as a result of higher rates, and a larger volume of some imports. In addition these advances in net payments were reinforced by a relatively larger increase in expenditures by Canadians travelling abroad, and by a decline in gold production available for export. The latter was mainly due to temporary factors affecting refining. At the same time, there were a few minor gains. As a result of the greatly enlarged inflow of immigrants in 1957, immigrant receipts exceeded payments in the second quarter, and resulted in a surplus for the half year. Official contributions were lower in both the first and second quarters, primarily as a result of smaller shipments of goods arising from Canada's contribution to the Colombo Plan. Continued expansion of expenditures for a variety of miscellaneous services and for Nato military establishments abroad, resulted in a somewhat larger deficit in the second quarter; however, gains in receipts in both the first and second quarters, largely from United States defence expenditures in Canada, reduced the half year deficit in 1957 for these miscellaneous items.

Transactions by areas

The record current account deficits in the second quarter of 1957, and in the first half year, were the result of still larger deficits with the United States, and sharp declines in the surplus position with other countries. Transactions with the United States continued to play a prominent role, as the deficit with that country rose to \$534 million in the second quarter, bringing the deficit to over \$1,000 million for the first six months which is the period in which normally a major part of the deficit occurs. This deficit incurred in the half year was larger than the annual deficits in eight out of eleven post-war years. The deficit with the United States for commodity trade actually declined in the second quarter as imports fell slightly. The increase in both imports and exports for the first six months was between 1 and 2 per cent. The growth in the deficit with the United States has been largely due to increased payments for non-merchandise items. The most important of these was the advance in income remittances arising out of increased



non-resident participation in the financing of recent Canadian investment projects. In addition there were increased expenditures by Canadians travelling in the United States, and for freight and shipping services.

The surplus with overseas countries fell in the second quarter to \$27 million. And as compared to the same quarter of 1956, there was a deterioration in the balance with each of the four designated areas.

The surplus with the United Kingdom narrowed in the second quarter, and the six month surplus of \$52 million was only half the surplus for the same period last year. The decline was almost entirely accounted for by a drop in wheat exports to the United Kingdom. It was reinforced in the half year by a small increase in imports, and larger net payments for non-merchandise items.

The surplus with overseas countries excluding the United Kingdom fell from \$57 million in the second quarter of 1956 to a deficit of \$1 million in 1957. This reversal was also more than accounted for by the decline in wheat exports, for which there had been extraordinary demands in Europe in 1957. For the first six months as a whole the surplus was marginally lower than in 1956; increases in exports to overseas countries in the first quarter offset the declines in exports and a small rise in imports in the second quarter, so that there was a small increase in the surplus in commodity trade. The decline in the overall surplus was related to increased net payments for non-merchandise items. A large part of this larger deficit was related to increased payments for services including shipping, and increased expenditures on Canadian military establishments in Europe in conjunction with the Nato. Lower shipments financed under the Colombo Plan mitigated somewhat the effects of the other increases in expenditure.

### Capital movements

An outstanding feature of capital movements in the second quarter was the further sharp gain in the net inflow into Canada of capital in long-term forms, which at a new peak of \$469 million compares with \$326 million for the first quarter, and with the previous peak of \$427 million in the fourth quarter of last year. The gain from the previous quarter occurred in most forms of inflow, whereas when compared with the earlier peak the new high level was entirely the result of larger inflows from security transactions. These latter enlarged inflows were influenced, of course, by prevailing pressures on capital markets and the tendency for more new issues to be sold abroad. This factor was combined with heavy overseas demands for Canadian stocks. And inflows for direct investment were substantially more than in the first quarter but still less than in the fourth quarter which had been unusually high because of several exceptional transactions.

Long-term inflows in the second quarter of 1957 covered more than nine-tenths of the current deficit in the period. This is a larger percentage of the deficit than was covered in either the first quarter this year or in the first half of last year. But in the second half of last year capital inflows considerably exceeded the deficits which normally are not as large as in the first half year because of seasonal factors.

The main part of the inflow for long-term investment continued to be from the United States and was chiefly from the high level of Canadian borrowing from the sale of new issues in that country, and from the large sustained direct investment inflows from United States companies. Inflows from overseas countries were again unusually heavy and in the half-year represented approximately one-quarter, or not far from \$200 million of the net inflow of capital in long-term forms, including loan repayments to the Canadian Government. In the whole year 1956, these inflows from overseas countries amounted to more than \$425 million, far in excess of any earlier year in recent decades. The largest part of the inflows from overseas in 1957 originated in sales of outstanding Canadian securities, also representing about one-quarter of the net inflow from all security transactions.

Associated with the exceptionally large capital inflows has been the unusual strength shown by the foreign exchange rate for the Canadian dollar. This strength was evident throughout the half year and the average rate for the United States dollar in Canada in the second quarter at 95.62 set a new post-war record low comparing with the previous record in the first quarter of 95.84.

The unprecedented size of capital inflows has, of course, led to a rapid increase in the accumulated total of non-resident investments in Canada, and in the balance of Canadian indebtedness to other countries. The balance of indebtedness to other countries which was estimated at \$9.5 billion at the end of 1956 was well over \$10 billion by the middle of 1957. A substantial increase also occurred in non-resident investment in Canada which at the end of 1956 had a value of \$15.4 billion, or more than double the corresponding total in 1948. Of this total in 1956 over \$11.6 billion was owned in the United States, \$2.7 billion in the United Kingdom, and \$1.1 billion in other countries, chiefly Western Europe.

Net inflows for direct investment of approximately \$150 million in the second quarter were substantially higher than in the preceding quarter when the net inflow was held down by non-recurring outflows. The volume of the inflow was considerably less than the total in the fourth quarter 1956 of \$185 million when that record figure was due to some exceptional transactions. While a few large special transfers were important contributors to the total in the second quarter, there continued to be a large part of this movement which originated from a widely distributed group of concerns in Canada controlled abroad undergoing expansion in the natural resource field and in industry. Companies engaged in the exploration and development of petroleum continued to be the most prominent among these and as a group brought in about the same total amount as in the same quarter last year.

Canadian direct investments abroad led to a net outflow estimated at \$15 million in the second quarter chiefly for the expansion of activities by concerns already operating abroad. Some liquidations of assets abroad led to capital inflows which tended to hold down the net outflow.

Portfolio security transactions in both of the first two quarters of 1957 have been the leading source of capital inflow and have had the same general outlines in the two periods. The net capital inflow from this group of transactions of \$314 million was responsible for about half of the enlarged inflow of \$43 million of long-term capital in the second quarter, having risen by almost one-third from \$239 million in the first quarter. This net inflow from security transactions made up about two-thirds of the total net inflow of long-term capital in the period.

In each quarter the sale of new issues of Canadian securities outside of Canada was the principal source of inflow reaching a new record of \$280 million in the second quarter compared with \$260 million in the first quarter, as various provincial and municipal governments and many corporations raised capital by this means in a period of rising interest rates in Canada. At the same time outflows for retirements of Canadian securities abroad have been comparatively moderate, and the trade in outstanding Canadian securities has led to inflows of capital. The latter have originated this year chiefly from the sustained demand in overseas countries for outstanding stocks of Canadian companies. Net sales of all outstanding Canadian securities amounted to \$36 million and \$47 million respectively in the first and second quarters, and sales of outstanding stocks were the principal element in this trade. In the first six months of 1957 net sales of stocks were \$69 million to the United Kingdom and \$23 million to other overseas countries. During the period the trade in outstanding Canadian bonds led to a small capital outflow as inflows from overseas were more than offset by outflows to the United States from repatriations of bonds.

There were also capital inflows from net sales of foreign securities of \$15 million in the second quarter in contrast to a net outflow in the first quarter. The liquidation of holdings of United States stocks was the main source of the inflow.

In the second quarter there were repayments of Government of Canada loans to overseas countries of close to \$20 million from the United Kingdom, Belgium, Czechoslovakia, Netherlands, and Norway.

Changes in balances and other short-term movements included an outflow of \$25 million from a further reduction in non-resident holdings of Canadian dollars and an outflow of \$22 million representing the Canadian dollar equivalent of the rise in official holdings of gold and foreign exchange in the period. At the end of June the official reserves of gold and United States dollars had a total value of \$1,941.8 million. All other capital movements, chiefly of a short-term character amounted on balance to a net inflow estimated at \$85 million in the second quarter. Once again this item contained a great variety of transactions in both inward and outward directions. In periods of heavy trade and financial pressures a prominent element has usually been the changes in receivables and payables and other leads and lags arising from differences between the times of settlements and movements of goods. But only some of these are recorded quarterly. It is possible that total transactions of this type were again predominantly inward in the second quarter. Other inflows during the quarter which were recorded include borrowing by loan companies and transfers by financial institutions. Recorded outflows during the quarter include repayments of bank loans and some further accumulation of private balances in United States dollars by residents of Canada, part of which arise from differences between the time of sale of new issues and the time of the conversion of proceeds to Canadian currency.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and

		1955				1956
		I	II	III	IV	I
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	967	1,098	1,127	1,140	1,095
3	Gold production available for export .....	39	39	37	40	38
4	Travel expenditures .....	26	66	182	54	22
5	Interest and dividends .....	26	32	27	75	31
6	Freight and shipping.....	82	100	108	108	100
7	Inheritances and immigrants' funds .....	16	25	24	21	18
11	All other current receipts .....	77	105	105	104	95
12	<b>Total Current Receipts</b> .....	<b>1,233</b>	<b>1,465</b>	<b>1,610</b>	<b>1,542</b>	<b>1,359</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	971	1,150	1,163	1,259	1,240
4	Travel expenditures .....	78	119	156	96	85
5	Interest and dividends .....	131	99	91	162	110
6	Freight and shipping.....	78	108	113	116	95
7	Inheritances and emigrants' funds .....	21	23	30	31	25
9	Official contributions .....	5	4	8	7	6
11	All other current payments.....	134	125	134	136	140
12	<b>Total Current Payments</b> .....	<b>1,418</b>	<b>1,628</b>	<b>1,695</b>	<b>1,807</b>	<b>1,771</b>
	Balance on Merchandise Trade .....	- 4	- 52	- 36	- 119	- 195
	Balance on Other Transactions, excluding B 9 .....	- 176	- 107	- 41	- 139	- 160
	Official Contributions.....	- 5	- 4	- 8	- 7	- 6
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 185</b>	<b>- 163</b>	<b>- 85</b>	<b>- 265</b>	<b>- 367</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 85	+ 115	+ 104	+ 113	+ 120
2	Direct investment abroad .....	- 11	- 12	- 12	- 39	- 60
	Canadian Securities					
3	Trade in outstanding issues .....	- 33	+ 5	- 24	+ 25	+ 70
4	New issues.....	+ 109	+ 27	+ 17	+ 13	+ 110
5	Retirements .....	- 86	- 61	- 19	- 18	- 70
	Foreign Securities					
6	Trade in outstanding issues .....	+ 14	- 6	+ 6	+ 11	- 10
7	New issues.....	- 5	- 17	- 4	- 22	- 10
8	Retirements .....	+ 3	-	+ 14	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	-	+ 10	+ 2	+ 27	-
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners ..	+ 30	+ 39	+ 6	+ 14	- 20
16	Change in official holdings of gold and foreign exchange (increase, minus).....	+ 71	- 56	- 7	+ 36	+ 20
17	Other capital movements .....	+ 1	+ 111	- 5	+ 97	+ 190
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 185</b>	<b>+ 163</b>	<b>+ 85</b>	<b>+ 265</b>	<b>+ 367</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income and insurance transactions, and business services.



# ALANCE OF INTERNATIONAL PAYMENTS

ata for 1956 are subject to revision.

1956			1957		Annual Totals			Four Quarters ending June 30, 1957	
II	III	IV	I	II	1954	1955	1956		
(millions of dollars)									
1,263	1,246	1,273	1,102	1,214	3,929	4,332	4,833	4,835	A
40	38	35	39	31	155	155	150	143	1
65	191	54	30	74	305	328	336	349	3
39	25	41	24	37	147	160	140	127	4
115	117	116	104	113	313	398	450	450	5
28	26	27	24	37	89	86	98	114	6
112	108	119	106	116	298	391	430	449	7
									11
1,662	1,751	1,665	1,429	1,622	5,236	5,850	6,437	6,467	12
1,541	1,350	1,434	1,327	1,514	3,916	4,543	5,567	5,625	B
133	169	103	100	143	389	449	498	515	1
116	121	181	126	147	423	483	530	575	4
134	131	134	109	144	356	415	498	518	5
28	29	30	25	28	94	105	112	112	6
10	5	6	7	5	11	24	30	23	7
135	150	147	142	148	479	529	574	587	9
									11
2,097	1,955	2,035	1,836	2,129	5,668	6,548	7,809	7,955	12
278	- 104	- 161	- 225	- 300	+ 13	- 211	- 734	- 790	
147	- 95	- 203	- 175	- 202	- 434	- 463	- 608	- 675	
10	- 5	- 6	- 7	- 5	- 11	- 24	- 30	- 23	
435	- 204	- 370	- 407	- 507	- 432	- 698	-1,372	-1,488	C
									D
169	+ 120	+ 185	+ 100	+ 150	+ 392	+ 417	+ 595	+ 555	1
5	- 24	- 15	- 20	- 15	- 81	- 74	- 110	- 74	2
43	+ 70	+ 17	+ 36	+ 47	+ 63	- 27	+ 207	+ 170	3
181	+ 178	+ 211	+ 260	+ 280	+ 331	+ 166	+ 681	+ 929	4
23	- 24	- 22	- 43	- 28	- 203	- 184	- 140	- 117	5
10	+ 10	+ 23	- 11	+ 16	+ 7	+ 25	+ 27	+ 38	6
5	- 3	- 6	- 4	- 3	- 33	- 48	- 15	- 16	7
	-	-	+ 1	+ 2	+ 2	+ 17	-	+ 3	8
13	-	+ 26	-	+ 12	+ 42	+ 39	+ 39	+ 38	10
8	+ 7	+ 8	+ 7	+ 8	+ 30	+ 30	+ 30	+ 30	11
5	- 3	+ 5	- 31	- 25	+ 34	+ 89	- 26	- 54	14
30	- 5	- 27	+ 13	- 22	- 124	+ 44	- 33	- 41	16
79	- 122	- 35	+ 99	+ 85	- 28	+ 204	+ 117	+ 27	17
435	+ 204	+ 370	+ 407	+ 507	+ 432	+ 698	+1,372	+1,488	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

Summary of Capital Movements, 1956 and 1957

(millions of dollars)

	1956		1957		1956		19
	III	IV	I	II	First half	Second half	First half
Direct investment in Canada	+120	+185	+100	+150	+290	+305	+2
Direct investment abroad	- 24	- 15	- 20	- 15	- 71	- 39	-
Canadian securities							
Trade in outstanding stocks	+ 78	+ 29	+ 43	+ 48	+ 88	+107	+
Trade in outstanding bonds	- 8	- 12	- 7	- 1	+ 32	- 20	-
New issues	+178	+211	+260	+280	+292	+389	+5
Retirements	- 24	- 22	- 43	- 28	- 94	- 46	-
Foreign securities	+ 7	+ 17	- 14	+ 15	- 12	+ 24	+
Official loan repayments	+ 7	+ 34	+ 7	+ 20	+ 28	+ 41	+
Canadian dollar holdings of foreigners	- 3	+ 5	- 31	- 25	- 28	+ 2	-
Official holdings of gold and foreign exchange (increase, -)	- 5	- 27	+ 13	- 22	- 1	- 32	-
Other capital movements	-122	- 35	+ 99	+ 85	+274	-157	+1
Net capital movement financing current account	+204	+370	+407	+507	+798	+574	+9

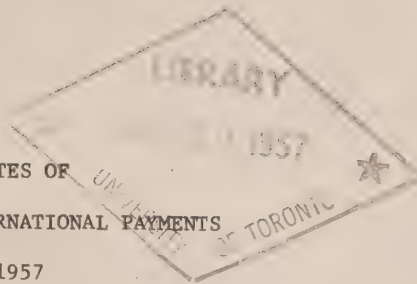
## DOMINION BUREAU OF STATISTICS

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QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
THIRD QUARTER, 1957

The current deficit of \$189 million from Canada's transactions in goods and services with other countries in the third quarter of 1957 was again substantial for that period of the year, although slightly less than the deficit of \$204 million in the corresponding quarter last year. The sources of the deficit have, however, changed significantly, with less from commodity trade and more from services and other transactions than was the case last year. On commodity account the deficit of \$46 million was less than one-half that in the same period last year, but the imbalance arising from all other current transactions was substantially larger, and at \$143 million contributed three-quarters of the current deficit, being several times the deficit from these transactions in any year before 1956.

While gross current receipts in the third quarter were larger than in any earlier quarter, gross current expenditures abroad were higher than in the third quarter last year, being also at an unusual level, though less than in some recent preceding quarters. The rise in current receipts occurred in merchandise exports as all other current receipts were less. In the case of current payments there were increases in all other current transactions but the value of merchandise imports was only slightly more. Some special factors contributed to this result, particularly in the case of receipts, and consequently the resulting deficit also was affected by some non-recurring factors. The comparative stability however, contrasted sharply with the rising trends last year associated with the high rate of general expansion characteristic of the economy at that time.

In the first three quarters the cumulative deficit of \$1,117 million was larger than ever before in a corresponding period, comparing with the previous record of \$1,002 million in these three quarters of last year. The rise was all due to the growing deficit from service and other current transactions as the balance on commodity account was slightly less this year.

From the end of 1955 and through 1956, the deficit on current account, and receipts and payments showed significant quarterly gains. By the beginning of 1957 some of the expansionary forces which had been operative in almost every sector of the Canadian economy were beginning to moderate. However, the demand for equipment and materials to carry through investment projects continued to lend considerable strength to the demand for imports, and was supported on the consumer goods side with high levels of income and employment. By the second and third quarters imports of commodities and many business services had levelled off at exceptionally high levels, while income remittances to non-residents and tourist expenditures by Canadians continued to rise. High levels of economic activity, inflationary pressures, currency problems, and good grain crops in other countries continued to contribute to rather mixed effects on Canadian trade, particularly exports.

Prepared in the Balance of Payments Section, International Trade Division.

-509-97



Decline in merchandise trade deficit in the third quarter offset increases in the first six months

A leading change during the quarter was the rise in merchandise exports and this led to the sharp reduction in the import balance from that in the third quarter of last year. In the third quarter of 1957 Canadian exports rose by some 8 per cent over the second quarter, in contrast to a decline which has usually occurred in this period in the past. The value this year was also above the corresponding period last year by some 5 per cent. The rise over last year occurred in commodities other than wheat and included some receipts from prepayments on defence account. Clearances of wheat were much less than last year but showed some gains over earlier quarters of this year. The increase in other commodities occurred in a number of cases. Some of these rises were substantial, particularly in such commodities undergoing growth in production as uranium, iron ore and petroleum, but also occurred in other commodities like nickel, newsprint, cattle, primary and semi-finished steel, and chemicals. There were again substantial declines in exports of lumber, copper, and aircraft, and for the first time during the year, exports of aluminum declined substantially as production was curtailed.

The increase in exports in the third quarter contributed to most of the rise in adjusted exports of almost 2 per cent in the nine months as shown in the balance of payments statement. In the longer period the general pattern of trends in individual commodities was much the same as in the third quarter described above, except that some prominent increases show up in the nine months for items like aluminum, old ships, and flax seed which either declined or showed only moderate increases in the third quarter.

The increase in the total exports in the nine months was about the same in amount as the rise to the United States. The increase to that country was mainly a reflection of the gains in the shipment of products of the growth industries and various other commodities referred to above for which demands were unusually strong, although significant declines also occurred in some commodities exported to that country. The small net decline in exports overseas reflects various offsetting movements. Exports to the United Kingdom were down mainly because of wheat. The reduced exports of wheat to all other countries was another major change but this was more than offset by higher sales of other commodities to this group of countries as a whole. Increases were widely distributed among industrial materials and also included some special items like old ships. Increases were prominent in exports to the OEEC, Latin America, and Japan, while the chief decline in the trade with other countries occurred in exports to Eastern Europe reflecting reduced sales of wheat.

Merchandise imports continued at an unusually high level but did not show the general tendency to rise rapidly which was characteristic of the previous year. The composition of imports in the quarter compared with last year underwent some changes, although the total value was about the same. From available data there appears to have been a general maintenance of large imports of non-agricultural machinery and many other manufactured products, although declines appeared in some like agricultural implements. Prominent among commodities showing increases were steel pipes and sugar.

In the first three quarters there was a small increase in value of between 1 and 2 per cent, with most of it having occurred in the first quarter and only a slight amount in the third following some decline in the second quarter. In this nine month period there were significant increases in such items as non-agricultural machinery, primary and semi-finished steel, and crude petroleum. There was also at least the maintenance of high levels of many other manufactured goods, although appreciable declines occurred in some like automobiles and agricultural implements.

Relative stability in the sources of Canadian imports also appears when comparison is made with last year. The small increase in total during the period was distributed among the leading countries of supply, although increases in imports from the United Kingdom and elsewhere overseas were relatively greater than from the United States.

Export prices have softened slightly since the beginning of the year, and the third quarter of 1957 was unchanged from the same quarter last year. Import prices on the other hand have risen some 3 per cent or more since last year, reversing the terms of trade. Taking into account these price movements, the deficit in volume terms would be somewhat less than the value data indicate.

Deficit from transactions in services and other non-merchandise items

The \$143 million deficit on non-merchandise transactions in the third quarter was almost 50 per cent larger than that incurred in the same quarter last year, and arose out of a decline in receipts and a rise in expenditures. And the imbalance from this group of transactions was again the leading source of the current deficit, as was the case before last year. In the nine month period, the deficit on "invisibles" also rose, from \$429 million in 1956 to \$546 million in 1957, as receipts declined by \$8 million and expenditures rose by \$109 million.

Comparing third quarter results for 1956 and 1957, there was a net deterioration in each of the main components but one. As travel expenditures abroad rose more than tourist receipts, the surplus declined at the same time there was an extraordinary fall in gold available for export mainly due to temporary factors related to refining facilities. The rest of the non-merchandise items giving rise to deficits showed

ivalent or larger deficits in the third quarter of 1957. Reflecting the growth in non-resident participation in the ownership and control of Canadian assets, both interest and dividend payments to non-residents continued to increase. Official contributions, primarily Canadian contributions to the Colombo Plan, also increased. Earnings on freight and shipping account had fallen off from last year's levels, and largely as a result of a decline in estimated United States expenditures on defence installations in Canada, there was an increased deficit in other miscellaneous transactions.

The \$117 million or 37 per cent increase in the deficit in the first nine months of 1957 was somewhat less than the 43 per cent gain in the third quarter alone. While there was an absolute increase in receipts from non-resident travel in Canada, and for larger inflows of migrants' funds, all other non-merchandise receipts declined. On the payments side all expenditure items rose except for official contributions, and as a result the net imbalance widened on travel, income, freight, and other miscellaneous transactions, and more than offset the decline in official contributions and the small surplus of immigrants' funds and inheritances.

#### Transactions by areas

The \$15 million decline in the deficit in the third quarter of 1957 from a year earlier resulted from a \$38 million drop in the deficit with the United States, which was partially offset by a \$23 million decline in the surplus with overseas countries. The decline in the imbalance with the United States was more than accounted for by a \$74 million fall in the deficit on commodity trade as exports rose moderately and imports fell slightly. Increases in a few exports, including some prepayments on defence account, were largely responsible for an overall gain in exports to the United States. The widening of the deficit for non-merchandise transactions with the United States reflected in part increased remittances of investment income, the completion of a major portion of United States defence installations being built in Canada, and a temporary decline in gold available for export.

The \$23 million decline in the surplus with overseas countries as compared to the third quarter of 1956 reflected both a drop in the surplus on commodity trade and an increase in the deficit on non-merchandise transactions. The most significant shifts (although small in absolute terms) in the major components of the accounts with the United Kingdom; as commodity imports from that country rose somewhat, and exports declined, the surplus on merchandise trade fell by \$14 million to \$78 million. This move was reinforced by a larger non-merchandise deficit, primarily from increased expenditures by Canadians travelling abroad. The shifts in the merchandise and non-merchandise accounts with other overseas countries were relatively smaller. The \$1 million surplus with other sterling area countries in the third quarter of 1956 was converted to a deficit of \$6 million partially as a result of increased contributions under the Colombo Plan. The deficit of \$6 million with other OEEC countries was unchanged in the third quarter, and the deficit with all other countries declined slightly, as commodity exports rose relatively more than imports.

For the nine month period, the current account deficit rose from \$1,002 million in 1956 to \$1,117 million in 1957. This larger deficit in 1957 to date was the combined result of an increased deficit with the United States and a smaller surplus with other overseas countries. As in the third quarter of this year there was in the nine month comparison, a deterioration in the surplus position with the United Kingdom and of the sterling area. This was due both to a decline in exports and an increase in imports. The surplus with the OEEC grew in 1957 as exports showed gains to most European countries. The deficit with all other countries declined as exports to Japan and some Latin American countries continued to rise.

#### Summary of Current Transactions with the United States, United Kingdom and Other Countries, 1956 and 1957 (millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1956	1957	1956	1957	1956	1957	1956	1957
<u>Third Quarter</u>								
Merchandise exports (adjusted)	1,246	1,308	732	794	220	212	294	302
Merchandise imports (adjusted)	1,350	1,354	936	924	128	134	286	296
Balance on merchandise trade	- 104	- 46	- 204	- 130	+ 92	+ 78	+ 8	+ 6
Balance on non-merchandise trade	- 100	- 143	- 42	- 78	- 23	- 29	- 35	- 36
Current account balance	- 204	- 189	- 246	- 208	+ 69	+ 49	- 27	- 30
<u>First nine months</u>								
Merchandise exports (adjusted)	3,560	3,624	2,092	2,171	599	556	869	897
Merchandise imports (adjusted)	4,133	4,195	2,986	3,007	374	391	773	797
Balance on merchandise trade	- 573	- 571	- 894	- 836	+ 225	+ 165	+ 96	+ 100
Current receipts	1,212	1,204	881	868	145	153	186	183
Current payments	1,641	1,750	1,174	1,255	198	217	269	278
Balance on non-merchandise trade	- 429	- 546	- 293	- 387	- 53	- 64	- 83	- 95
Current account balance	-1,002	-1,117	-1,187	-1,223	+ 172	+ 101	+ 13	+ 5



## Capital movements

The inflow of capital to Canada in long-term forms, although at a reduced rate in the third quarter, was substantial both in absolute terms and in relation to the current account deficit, despite some evidence that the third quarter of 1957 was generally one of hesitation and reappraisal in financial circles. The reduction was the result of a smaller capital inflow from the net sale of Canadian securities to non-residents and after five quarters the inflow for direct investment in foreign-controlled enterprises in Canada reappeared as the more important source of external capital. These inflows have demonstrated less volatility than portfolio investment where interest and exchange rates might be expected to be more influential.

The net inflow of capital in the long-term forms shown separately in statements of the Canadian balance of international payments fell in the third quarter of the year to \$261 million. This represented a decline of \$200 million over the preceding quarter. The decrease in the deficit on current account amount, however, to well over \$300 million, and there were net outflows of capital in other forms as there have been in each third quarter of the eight years covered by official quarterly estimates of the Canadian balance of international payments. Despite the reduction of the inflows in long-term forms to their lowest level since the first quarter of 1956, it is of interest that before that time in the five years from 1950 to 1955 this level was exceeded only in the special circumstances of the third quarter of 1950.

About three quarters of the inflows in long-term forms were, on balance, from the United States; this proportion applied to both the quarter and nine months, and compared with about two-thirds for the whole of 1956. Although the net movement from the United States was about 10 per cent smaller than in the corresponding quarter of last year, the nine-months comparison showed an increase of about one-third, or about \$200 million. However, fourth quarter inflows in 1956 were exceptionally large and it seems improbable that the increase for 1957 as a whole will be as large as for the nine months.

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada continued unabated, and indeed established a new record for the third quarter of \$135 million. The decline of \$15 million from the second quarter was partly accounted for by non-recurring inflows in that period directed to the purchase of existing undertakings. The change did not, as a consequence, indicate a corresponding reduction in the inflows directed to new capital formation. Net inflows to mining operations were smaller than in the second quarter because the seasonal nature of some operations tends to concentrate repatriation of long-term capital in the third quarter. Net inflows to manufacturing were also reduced, mainly because of the non-recurring transactions already referred to. With these exceptions there was a tendency for the net capital inflow to rise, with modest increases recorded to the petroleum industry and other sectors. Petroleum and mining received about half the net movement, and manufacturing one-third. More than four-fifths of the net movement in the third quarter was of United States origin, and on balance the reduction from the second quarter was attributable to overseas investors.

The net inflow for United States direct investment in Canada accounted for nearly 85 per cent of the total in the third quarter and about 80 per cent in the nine months of 1957. This compared with about two-thirds in the corresponding periods of 1956. Quantitatively United States direct investment inflows were larger in both the second and third quarters of 1957 than in 1956, and in the nine months were of the order of \$300 million compared with \$260 million.

Canadian direct investment abroad is estimated to have led to a net capital outflow of \$15 million in the third quarter, equalling the outflow in the second quarter.

Transactions in Canadian portfolio securities led to a capital inflow of \$125 million in the third quarter of the year, down sharply both from the peak of \$291 million reached in the preceding quarter, and from the total of \$249 million in the first quarter. About 60 per cent of the net inflow in the third quarter was from the United States and the balance was from overseas countries. In the first half of the year about three-quarters of the very much larger movement was from the United States.

The principal reason for the decline in the third quarter was a fall off in the proceeds of new issues of Canadian securities sold abroad. These proceeds, amounting to \$138 million, compared with \$284 million in the second quarter and were at their lowest level since the first quarter of 1956. There were sharp reductions in the amount of provincial and corporate issues sold abroad, although increased sales of municipal and Government of Canada issues were reported. Almost 90 per cent of the new issues of Canadian securities sold to non-residents during the quarter were purchased by residents of the United States, and issues payable optionally or solely in foreign currencies represented over 90 per cent of the new bonds and debentures sold to non-residents. It is of some significance that of the proceeds from the sale of bonds and debentures more than 20 per cent represented earlier sales for which deferred deliveries had been arranged, and more than 30 per cent represented proceeds of offerings in the second quarter for delivery in the third. Thus less than half the total covered securities for which sales were negotiated in the third quarter itself. The proceeds of new issues of stocks similarly included a substantial proportion of offerings made on a rights basis in the second quarter.

Retirements of foreign-held Canadian securities totalling \$44 million in the third quarter were about the level of retirements in earlier quarters of 1957; in the third quarter of the year a Government of Canada guaranteed issue accounted for the major part of the total. About 90 per cent of all the Canadian



securities owned by non-residents which were retired during the quarter were held by residents of the United States, and more than 95 per cent of the total bonds and debentures retired were payable optionally or solely in foreign currencies.

Trade in outstanding Canadian stocks led to an inflow of \$43 million for the quarter (of which \$40 million occurred in the months of July and August), compared with \$48 million for the second quarter. There have been, on the other hand, net repurchases of outstanding Canadian bonds, debentures, and other securities in each of the last six quarters, and these reduced to \$31 million the net inflow in the third quarter from the sale of all outstanding Canadian securities. Government of Canada issues made up a significant part of the repurchases and may have been related to the new offering in September. It is noteworthy that, after seventeen months in each of which residents of the United Kingdom were, on balance, buyers of outstanding Canadian stocks, totalling more than \$150 million in the period, there were net repurchases in September. But there were net sales to other non-residents which led to an overall sales balance on account of trading in outstanding Canadian stocks, a pattern which remains unbroken for twenty months.

Transactions in foreign securities led to a net capital inflow of \$9 million, down slightly from the figure of \$15 million recorded in the second quarter. Canadians continued to repatriate holdings of United States stocks at about the same rate as in the second quarter, but there was an increase in Canadian purchases of new issues of United States and other foreign securities.

As background to these international security movements it will be recalled that in August there were sharp drops in stock prices in both Canada and the United States. Reference is made later to the exchange value of the United States dollar in Canada which in August, too, fell to a new low for this century and then rose over the remainder of the quarter to a level somewhat above that prevailing earlier. Interest rates rose moderately over the quarter and the differential between yields in Canada and in the United States widened slightly.

Repayments on Canadian dollar loans made to foreign governments were, as is customary in the third quarter, limited to the receipt of \$7.5 million principal from the Government of the United Kingdom on the \$100 million interest free loan of 1942.

Turning now to the other categories of capital movements, reflecting in the main changes in assets and liabilities of a short-term character, a net capital inflow of \$9 million was recorded in the third quarter from a net increase in holdings of Canadian dollars by non-residents. In the first half of the year non-resident holdings were reduced by \$56 million. Net increases in the third quarter were recorded for holdings of residents of the United States, of the United Kingdom, and of other overseas countries. On balance, the increase covered holdings of Government of Canada treasury bills.

A capital inflow of \$53 million was recorded in the third quarter reflecting a reduction in official holdings of gold and foreign exchange. At the beginning of the quarter official holdings of gold and United States dollars, measured in terms of United States funds, amounted to \$1,941.8 million. They were increased during July to \$1,973.0 million, a figure some \$30.4 million above the previous month-end peak, but in August and September there were decreases of \$30.1 million and \$53.0 million, respectively, reducing holdings at the end of the quarter to \$1,889.9 million.

All other capital movements led to a net capital outflow of \$134 million in the third quarter, following inflows of \$102 million and \$108 million reflected in statements for the first and second quarters respectively. The components of these totals which are measurable at the present time reveal the existence of complex and often paradoxical movements. In the circumstances existing in recent quarters these movements have been sufficiently conflicting to preclude sound generalization as to motivating influences and character of the items.

The fluctuation of the Canadian dollar on the international exchange market was greater than usual in the third quarter of the year. The quotation for the United States dollar in Canada which was 95.34 cents at the end of the preceding quarter tended to fall through July and the early part of August. The rate of decline then accelerated and a new low for this century of 94.22 cents was established on August 20. Following this the value of the United States dollar in Canada showed a generally rising trend reaching a high of 95.6 cents on September 30 and closing the quarter at 96.44 cents. In only one other year since the re-introduction of fluctuating exchange rates in Canada in 1950 has the exchange value of the United States dollar in Canada been higher at the end of the third quarter than at the beginning.

The noon average for the quarter as a whole was 95.25 cents compared with 95.62 cents for the second quarter. The trading range of 2.34 cents during the third quarter was the largest since the first quarter of 1955, compared with only 0.84 cents and 1.00 cents in the first and second quarters of 1957 respectively; the nine-month low and high quotations were established within a period of only six weeks. Statistical details do not in themselves suffice to fully explain the short term shifts and the size of the exchange rate movements which occurred in Canada during the quarter.

Western European currencies were also the subject of strains and fluctuations on the international exchange markets in this period.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and

		1955			1956	
		II	III	IV	I	II
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,098	1,127	1,140	1,051	1,263
3	Gold production available for export .....	39	37	40	37	40
4	Travel expenditures .....	66	182	54	26	65
5	Interest and dividends .....	32	27	75	35	39
6	Freight and shipping.....	100	108	108	102	115
7	Inheritances and immigrants' funds .....	25	24	21	17	28
11	All other current receipts .....	105	105	104	91	112
12	<b>Total Current Receipts</b> .....	<b>1,465</b>	<b>1,610</b>	<b>1,542</b>	<b>1,359</b>	<b>1,662</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,150	1,163	1,259	1,242	1,541
4	Travel expenditures .....	119	156	96	93	133
5	Interest and dividends .....	99	91	162	112	116
6	Freight and shipping.....	108	113	116	99	134
7	Inheritances and emigrants' funds .....	23	30	31	25	28
9	Official contributions .....	4	8	7	9	10
11	All other current payments.....	125	134	136	142	135
12	<b>Total Current Payments</b> .....	<b>1,628</b>	<b>1,695</b>	<b>1,807</b>	<b>1,722</b>	<b>2,097</b>
	Balance on Merchandise Trade .....	- 52	- 36	- 119	- 191	- 278
	Balance on Other Transactions, excluding B 9 .....	- 107	- 41	- 139	- 163	- 147
	Official Contributions.....	- 4	- 8	- 7	- 9	- 10
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 163</b>	<b>- 85</b>	<b>- 265</b>	<b>- 363</b>	<b>- 435</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada.....	+ 115	+ 104	+ 113	+ 121	+ 169
2	Direct investment abroad .....	- 12	- 12	- 39	- 66	- 5
	Canadian Securities					
3	Trade in outstanding issues .....	+ 5	- 24	+ 25	+ 77	+ 43
4	New issues.....	+ 27	+ 17	+ 13	+ 111	+ 181
5	Retirements .....	- 61	- 19	- 18	- 71	- 23
	Foreign Securities					
6	Trade in outstanding issues .....	- 6	+ 6	+ 11	- 16	+ 10
7	New issues.....	- 17	- 4	- 22	- 1	- 5
8	Retirements .....	-	+ 14	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 10	+ 2	+ 27	-	+ 13
11	Repayment of war loans.....	+ 8	+ 7	+ 8	+ 7	+ 8
14	Change in Canadian dollar holdings of foreigners...	+ 39	+ 6	+ 14	- 23	- 5
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 56	- 7	+ 36	+ 29	- 30
17	Other capital movements .....	+ 111	- 5	+ 97	+ 195	+ 79
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 163</b>	<b>+ 85</b>	<b>+ 265</b>	<b>+ 363</b>	<b>+ 435</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

Data for 1956 are subject to revision.

1956		1957			Annual Totals			Four Quarters ending Sept. 30, 1957	
III	IV	I	II	III	1954	1955	1956		
(millions of dollars)									
246	1,273	1,102	1,214	1,308	3,929	4,332	4,833	4,897	A
38	35	39	31	27	155	155	150	132	1
191	54	30	77	199	305	328	336	360	3
25	41	24	37	29	147	160	140	131	4
117	116	104	113	113	313	398	450	446	5
26	27	24	37	29	89	86	98	117	6
108	119	106	101	84	298	391	430	410	7
									11
751	1,665	1,429	1,610	1,789	5,236	5,850	6,437	6,493	12
350	1,434	1,327	1,514	1,354	3,916	4,543	5,567	5,629	B
169	103	100	143	179	389	449	498	525	1
121	181	126	147	134	423	483	530	588	4
131	134	109	144	131	356	415	498	518	5
29	30	25	28	32	94	105	112	115	6
5	6	7	8	7	11	24	30	26	7
150	147	142	148	141	479	529	574	579	9
									11
955	2,035	1,836	2,132	1,978	5,668	6,548	7,809	7,980	12
104	- 161	- 225	- 300	- 46	+ 13	- 211	- 734	- 732	
95	- 203	- 175	- 214	- 136	- 434	- 463	- 608	- 729	
5	- 6	- 7	- 8	- 7	- 11	- 24	- 30	- 26	
204	- 370	- 407	- 522	- 189	- 432	- 698	-1,372	-1,487	C
									D
120	+ 185	+ 100	+ 150	+ 135	+ 392	+ 417	+ 595	+ 570	1
24	- 15	- 20	- 15	- 15	- 81	- 74	- 110	- 65	2
70	+ 17	+ 36	+ 47	+ 31	+ 63	- 27	+ 207	+ 131	3
178	+ 211	+ 260	+ 284	+ 138	+ 331	+ 166	+ 681	+ 888	4
24	- 22	- 43	- 40	- 44	- 203	- 184	- 140	- 148	5
10	+ 23	- 11	+ 16	+ 16	+ 7	+ 25	+ 27	+ 44	6
3	- 6	- 4	- 3	- 8	- 33	- 48	- 15	- 21	7
-	-	+ 1	+ 2	+ 1	+ 2	+ 17	-	+ 4	8
-	+ 26	-	+ 12	-	+ 42	+ 39	+ 39	+ 38	10
7	+ 8	+ 7	+ 8	+ 7	+ 30	+ 30	+ 30	+ 30	11
3	+ 5	- 31	- 25	+ 9	+ 34	+ 89	- 26	- 42	14
5	- 27	+ 13	- 22	+ 53	- 124	+ 44	- 33	+ 17	16
122	- 35	+ 99	+ 108	- 134	- 28	+ 204	+ 117	+ 41	17
204	+ 370	+ 407	+ 522	+ 189	+ 432	+ 698	+1,372	+1,487	E

## NOTES:

1 A minus sign indicates an outflow of capital from Canada.

2 Exclusive of undistributed profits.

7 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.



Summary of Capital Movements, 1956 and 1957

(millions of dollars)

	1956		1957			1956	1957
	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	First nine Months	First nine Months
Direct investment in Canada	+ 120	+ 185	+ 100	+ 150	+ 135	+ 410	+ 385
Direct investment abroad	- 24	- 15	- 20	- 15	- 15	- 95	- 50
Canadian securities:							
Trade in outstanding stocks	+ 78	+ 29	+ 43	+ 48	+ 43	+ 166	+ 134
Trade in outstanding bonds	- 8	- 12	- 7	- 1	- 12	+ 24	- 20
New issues	+ 178	+ 211	+ 255	+ 284	+ 138	+ 470	+ 677
Retirements	- 24	- 22	- 42	- 40	- 44	- 118	- 126
Foreign securities	+ 7	+ 17	- 14	+ 15	+ 9	- 5	+ 10
Official loan repayments	+ 7	+ 34	+ 7	+ 20	+ 7	+ 35	+ 34
Canadian dollar holdings of foreigners	- 3	+ 5	- 31	- 25	+ 9	- 31	- 47
Official holdings of gold and foreign exchange (increase, -)	- 5	- 27	+ 13	- 22	+ 53	- 6	+ 44
Other capital movements	- 122	- 35	+ 102	+ 108	- 134	+ 152	+ 76
Net capital movement financing current account	+ 204	+ 370	+ 406	+ 522	+ 189	+1,002	+1,117

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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1957, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1957

In 1957 Canada's deficit on international current account of \$1,383 million was slightly higher than the previous peak of \$1,372 million reached in 1956 after a sharp increase from the imbalance of 1955 and earlier years. Although this excess of international expenditures for goods and services over receipts as close to the same magnitude as in 1956, the sources showed some significant changes. Most important among the changes was a reduction of \$156 million in the import balance on commodity account to \$578 million as imports fell while exports showed a further gain. But this change was more than offset by a rise of \$167 million in net payments for all other current transactions to \$805 million. The largest part of the latter rise was due to a further expansion in payments of interest and dividends on non-resident investments in Canada and to gains in net expenditures for transportation, other transactions in services, and larger official contributions to other countries. During the year the imbalance from commodity trade declined while that from other transactions was higher than the previous year in each quarter. But the growth in the total deficit occurred in the first half of the year with the deficit in the second half being at a considerably lower level.

The above trends were particularly pronounced in the fourth quarter of 1957 when virtually all of the change in the balance on commodity account occurred. In that period the imbalance on commodity account all but disappeared but the deficit from other current transactions and official contributions widened further. At \$250 million the imbalance from these latter transactions was higher than ever before, but the final quarter of the year has been customarily a season when some of these types of imbalance are high. The substantial decline in merchandise imports was chiefly responsible for the rapid change in the commodity balance in the fourth quarter. This was apparently a reflection of a moderating in some of the underlying pressures which had been so pronounced early in the year, particularly those related to business investment.

When the results of the year 1957 are taken as a whole, certain similarities with 1956 are apparent, although different underlying factors had become prominent in the latter part of the year. In both years the degree of imbalance has been exceeded only in a few earlier periods of exceptional growth. A high level of investment activity in Canada has been a feature of the period and in both years there was exceptional reliance upon foreign resources to finance investment in Canada. In 1956 approximately one-third of net capital formation was financed by the use of foreign resources, and it does not seem likely that the ratio was very much less in 1957. In both years the imbalance has been chiefly financed by net inflows of capital for long-term investment of unprecedented size. These inflows of capital have also been broadly similar in each year, although the proportion of the inflow invested in equity forms was somewhat less in 1957 with more being in bonds and debentures. In both years Canada's balance of indebtedness to other countries has risen sharply with further significant increases in non-resident ownership and control of Canadian industry as well as increases in Canadian funded debt owned abroad. By the end of 1957 the balance of indebtedness to other countries had risen to over \$11 billion compared with \$3.7 billion in 1949, mainly because of the rise in non-resident long-term investments in Canada to a total of around \$17 billion which is not far from twice the value in 1949.

The net inflow of direct and portfolio investment capital from the United States was larger than in 1956 when it amounted to some \$867 million. In 1957 it accounted for nearly three-quarters of the total movement of some \$1,250 million in these forms (including repayments on official loans to overseas governments), compared to about two-thirds of more than \$1,300 million in the previous year. The capital import in these forms from all countries was equivalent to more than 90 per cent of the current account deficit in 1957, and more than 95 per cent in 1956.

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Over the year as a whole portfolio security transactions were by far the most important type of capital movement, reaching a record net inflow of \$316 million in the second quarter. But they then contracted sharply to \$135 million in the third quarter and \$45 million in the fourth quarter, chiefly because of reductions in inflows from new issues abroad. Declines in actual sales of new issues in these quarters were even greater as funds were received from new issues which had been arranged for earlier on a deferred delivery basis. In contrast there was a striking stability in movements of direct investment capital. The fourth quarter inflow of capital for direct investment in foreign-controlled enterprise in Canada amounted to \$155 million which was the same level as in the second quarter and was exceeded only in two quarters in earlier years.

The price of the United States dollar in Canada rose from 95.97 cents at the end of 1956 to 98.41 cents at the end of 1957. It moved through a low of 94.22 cents in August and a high of 98.62 cents in December, a trading range of 4.40 cents which was slightly wider than in 1956 and wider than for any earlier year since 1952. In general the United States dollar tended to decline moderately into the third quarter. The trading range in the first quarter was only 0.84 cents and in the second quarter only 1.00 cents. By mid-year the quotation for the United States dollar in Canada had fallen 0.63 cents to 95.34 cents. This trend continued through July and the early part of August when the rate of decline accelerated and a new low for the century of 94.22 cents was established on August 20. Following this the value of the United States dollar in Canada showed a generally rising trend for the balance of the quarter, closing at 96.44 cents, having traded within a range of 2.34 cents in the quarter. In the latter part of November and through December, the Canadian dollar weakened and the United States dollar in Canada closed the year at 98.41 cents; the trading range for the quarter was 2.93 cents. The noon averages for the four quarters of 1957 were 95.84 cents, 95.62 cents, 95.25 cents, and 96.82 cents respectively. The noon average of 95.88 cents for the year as a whole compared with 98.41 cents in 1956.

#### Import balance on commodity trade contracts during 1957

One of the more striking aspects of the rising deficit throughout 1955 and 1956 had been the growth in the deficit on commodity trade. In the latter year this imbalance contributed over half of the current account deficit. The growth continued in the early months of 1957 and for the first six months of the year the commodity trade deficit was substantially above that for the comparable period of 1956. The increase in the first quarter deficit came about as a result of a larger gain in imports than in exports; however at that time it was apparent that the rate of growth of both imports and exports was moderating. In the second quarter, the deficit increased further as both imports and exports fell as compared to 1956, but the latter relatively more. By the last half of 1957, there were numerous indications of declines in imports, and in the final quarter, total imports were 10 per cent lower than in 1956. In the third quarter exports continued relatively strong, but by the fourth quarter the increase was only some 1 per cent over the same period in 1956. As a result of these contrary movements, the deficit on commodity trade declined from \$529 million in the first six months of 1957 to \$49 million in the last six months. The annual changes in total values were relatively minor; exports rose by more than 1 per cent, and imports declined by close to the same amount, and the trade deficit declined from \$734 to \$578 million to constitute well under half of the current account deficit.

Import prices rose unevenly through 1957 to a level averaging 3 to 4 per cent above 1956, and export prices averaged about the same as in 1956, although they declined some 2 per cent within the year. As a result, the terms of trade, which had improved during 1956, deteriorated by close to 3 per cent in 1957. The effect of these price changes has been that figures shown for declines in the value of imports understate the extent of the drop in the volume of imports. The drop in the deficit in real terms would therefore be somewhat larger than the value figures indicate.

Although total imports in 1957 were only slightly lower in value than the record level in 1956, the unusual flexibility of this item continued to be a characteristic. The broad similarity in total and composition in the two years as a whole conceals the main trends which were under way during the period, and which served to distinguish the two years. While in 1956 the trend was generally upward, the opposite was the case during 1957. The unusually high levels at the close of the previous year had carried over into the early part of 1957, but there was subsequently a levelling off with a substantial decline having occurred by the final quarter of 1957.

The declines which became more pronounced in the latter part of 1957 were most evident in imports of the types of commodities which had undergone the greatest expansions in 1956 and which continued at most exceptional levels into 1957. For example, the decline in the total value of imports which occurred between the closing months of 1957 and the period earlier in the year when imports had been at their highest level, was largely concentrated in a few groups of commodities. Among the commodities showing this trend were those closely related to investment in Canada. For example, most kinds of machinery and equipment, particularly those types which are used in industry, declined in the latter months of the year, although for the year as a whole the total imports of non-farm machinery were not very different from the previous year. Imports of many kinds of steel also fell off sharply in the latter half of the year, and in the year as a whole were less than in 1956. Declines also occurred in other industrial materials towards the close of the year. Generally imports affected by levels of personal consumption in Canada either rose or were well maintained as in the case of some kinds of food and textiles and other consumer goods.



In contrast to the declines which appeared in some commodities in the second half, was a general maintenance of exceptional levels of imports in the first half of 1957 compared with the same period in 1956. While this stability was general in that period of 1957 some of the groups which had been showing exceptional strength reached their highest levels, the best examples being again supplied by machinery and steel rolling mill products. At the same time there were some notable reductions in imports of automobiles which had been exceptionally high in the previous year due to special circumstances. As a result of these trends the level of imports in the last quarter of 1957 was not far above that in the same period of 1955 before the more exceptionally high levels reached in 1956 and in earlier quarters of 1957. But it should be noted that even the level of the last half of 1955 was well above that in earlier periods.

Changes in the sources of Canadian imports in 1957 were in the direction of a reduction in the total imported from the United States partly offset by increases from overseas. Increases from overseas were widely distributed including manufactured goods from the United Kingdom and leading suppliers in Western Europe, and primary products from parts of the rest of the Sterling Area and other countries of the world including petroleum from Venezuela.

While Canada's exports rose only moderately in total in 1957, there continued to be more substantial increases in certain commodities. These included some like uranium and petroleum where production increased substantially and others like cattle and old ships where sales were unusually high. Other substantial increases occurred in seeds and iron and steel, but rises were not as general as in preceding years and some appreciable declines occurred in exports of various commodities such as lumber and copper, in addition to sharp declines in sales of wheat and other grains. And there were other smaller reductions which appeared in other commodities, particularly in the latter part of the year, in contrast to the rising trends of earlier years.

Summary of Current Transactions with the United States,  
United Kingdom, and Other Countries, 1956 and 1957

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1956	1957	1956	1957	1956	1957	1956	1957
<u>Calendar Year</u>								
Exports (adjusted)	4,833	4,909	2,850	2,931	818	749	1,165	1,229
Imports (adjusted)	5,567	5,487	4,023	3,879	493	519	1,051	1,089
Balance on trade	- 734	- 578	-1,173	- 948	+ 325	+ 230	+ 114	+ 140
Other current receipts	1,604	1,586	1,148	1,130	196	199	260	257
Other current payments	2,242	2,391	1,615	1,732	267	285	360	374
Balance on "invisibles"	- 638	- 805	- 467	- 602	- 71	- 86	- 100	- 117
Current account balance	-1,372	-1,383	-1,640	-1,550	+ 254	+ 144	+ 14	+ 23
<u>Fourth Quarter</u>								
Exports (adjusted)	1,273	1,284	758	758	219	194	296	332
Imports (adjusted)	1,434	1,290	1,037	876	119	130	278	284
Balance on trade	- 161	- 6	- 279	- 118	+ 100	+ 64	+ 18	+ 48
Balance on "invisibles"	- 209	- 250	- 174	- 201	- 18	- 25	- 17	- 24
Current account balance	- 370	- 256	- 453	- 319	+ 82	+ 39	+ 1	+ 24

Canada's capacity to export has grown substantially during the recent period of industrial and resource development. As well as the appearance of new export industries there has been an addition to the capacity of existing export industries. Exports from this new industrial capacity have been mainly responsible for a steady rise in exports of industrial materials which has been particularly substantial each year since 1954 with demand being generally strong and rising. In 1957 a further gain occurred in total exports of industrial materials but this was less in total than in the previous year, and was more concentrated in a few commodities than was the case earlier with declines appearing in exports and prices of some commodities for which demand had been strong earlier. In addition, sales of wheat and other grains were considerably lower in 1957 than in 1956 when they had been higher than in any other post-war year except 1952 and 1953.

Changes in the direction of Canadian exports were also for the most part relatively moderate with about 60 per cent of the total again going to the United States. There was a small increase of some 2 per cent in exports to the United States with little net change in the total overseas. But relative changes in exports to different overseas destinations were greater. Increases to the OEEC countries, Latin America, and Japan were mainly offset by declines to the United Kingdom, the rest of the Sterling Area, and Eastern Europe. The composition of overseas trade also underwent considerable change with reduced exports of grains being offset by rises in a variety of other commodities chiefly industrial materials.

#### Rising deficit from transactions in services and other non-merchandise items

A significant feature of the current account deficit in 1957 was the continued growth of the deficit on non-merchandise transactions in each quarter and in the year. From 1956 to 1957, the deficit on "invisible" items rose by some 26 per cent, from \$638 million to \$805 million. In view of the small rise in the overall current account deficit, this gain in the non-merchandise deficit indicated a substantial increase in the relative importance of the imbalance on "invisibles". Not since the first quarter of 1955 has the merchandise trade deficit played such a minor role in the overall deficit as it did in the final quarter of 1957.

The growth in the "invisible" deficit in 1957 was the result of continued increases in payments (almost 7 per cent) and a small decline in receipts (1 per cent). By the fourth quarter of the year the non-merchandise deficit had reached a new peak of \$250 million, some 20 per cent above the final quarter of 1956. Payments in this quarter had the smallest increase as compared to the same quarter a year earlier as there has been for some time, although the level was slightly above that incurred in the fourth quarter of 1956; receipts fell some 7 per cent below the level in the same quarter of 1956.

All but two of the main categories of non-merchandise transactions moved to widen the deficit in 1957. The two exceptions were travel and inheritances and migrants' funds. As more people chose to take holidays outside their own country, both receipts and expenditures for travel rose, and the deficit remained virtually unchanged at \$161 million. This contrasts with substantial increases in the deficit in each of the three previous years, and results from a greater rise in receipts than in payments. Receipts from travel expenditures in Canada by visitors from the United States rose at about twice as fast a rate as the rise in Canadian travel expenditures in that country. With higher average expenditures in Canada as well as a larger number of visitors, there was consequently a contraction in the deficit on travel account with the United States. But while this contraction was offset by a further gain in net payments to overseas countries by Canadian travellers abroad, the rise in this latter group of expenditures was less than in the previous year.

The increase in personal mobility was also reflected in transfers of migrants' funds. The growth in emigration by Canadians to the United States and the United Kingdom resulted in a larger outflow of migrants' funds. However, the flood of immigration to Canada was so large in 1957 that receipts of migrants' funds exceeded payments, and the normal net deficit on inheritances and migrants' funds was wiped out. Gold production available for export was somewhat smaller at \$147 million in 1957; the setback in the third quarter of the year which related to refining facilities, was almost caught up in the fourth quarter when the amount available for export rose to \$50 million.

The deficit on the income account has been increasing every year since 1953, and each successive increase has been larger than its predecessor. From 1956 to 1957 the deficit rose from \$390 to \$462 million, as payments increased by \$83 million and receipts by only \$11 million. Almost a third of the increase in payments related to larger interest remittances arising out of recent issues of bonds by Canadian companies in the United States. A major part of the rest of the increase reflected larger dividend payments by Canadian subsidiaries to their non-resident parents, as well as greater non-resident ownership of Canadian assets. It should be pointed out that in recent years of general industrial expansion, earnings of these subsidiaries have been well in excess of dividend transfers to parent companies and other shareholders, since large amounts of earnings have been retained for further investment in Canada during that period.

On freight and shipping account there was a further increase in the deficit to \$72 million from \$44 million in 1956. A larger contraction in receipts than in payments brought about this result. Most of the drop in receipts was in shipping revenues with fewer vessels operated by Canadian concerns and lower revenue. There was also some decline in inland freight on Canadian exports. Less inland freight was also paid on the reduced volume of Canadian imports from the United States, but total expenditures by Canada were largely maintained by high transportation costs in importing larger cargoes from overseas. Official contributions increased in 1957 to \$38 million, largely as a result of higher expenditures out of Canada's Colombo Plan



contribution. The deficit on account of other non-merchandise transactions rose by some 50 per cent in 1957. The major factor contributing to this greatly increased imbalance was a falling off in United States government expenditures in Canada on defence installations. In addition there was considerable upward pressure on miscellaneous income and personal remittances, as well as on payments for a wide variety of business services.

#### Transactions by area

The \$11 million increase in the current account deficit from 1956 to 1957 was the result of two contrary movements, a decline in the deficit with the United States of \$90 million, and a decline in the surplus with overseas countries of \$101 million. This small increase in the deficit in 1957 as compared to 1956 was the net effect of larger deficits in both the first and second quarters, and smaller deficits in the third and fourth. The \$114 million decline in the overall deficit in the final quarter of 1957 consisted of a \$134 million drop in the deficit with the United States from \$453 million to \$319 million, and a decline in the surplus with overseas countries from \$83 million to \$63 million.

The decrease in the deficit with the United States of \$90 million from 1956 to 1957 was the result of a \$225 million drop in the deficit on commodity trade partially offset by an increase of \$135 million in the non-merchandise deficit. Both the third and fourth quarter deficits in 1957 were substantially smaller than those of the same period in 1956, and for the most part, the declines were related to commodity trade. For the year as a whole the \$225 million decline in the commodity trade deficit with the United States was the result of a \$144 million drop in imports from, and an \$81 million increase in exports to that country. The contraction of imports as reflected in declines in imports of automobiles and parts, and industrial machinery and equipment accompanied a tapering off in the rate of business expansion in Canada in the latter part of the year. The rise in commodity exports to the United States of resource commodities and primary products such as petroleum, uranium, and cattle was sufficiently large to offset the impact of reduced demands in that economy for other exports from Canada. The increase of \$135 million in the deficit for non-merchandise items with the United States relates to both a small decline in receipts and rise in payments. The \$18 million drop in receipts from "invisible" transactions is after including increases in tourist receipts, income remittances, and immigrants' funds, which were more than offset by declines in receipts from gold available for export, freight and shipping earnings, and miscellaneous items including the United States defence expenditures in Canada, mentioned above. The \$117 million rise in payments for "invisible" items covers each of the main categories including travel, income remittances, inheritances and migrants' funds, and miscellaneous business service and other payments. The largest increase in payments was \$71 million in income account; this rise reflects the increased United States investment in Canada, in both equities and bonds.

#### Changes in Principal Elements of the Current Account with all Countries, 1956 and 1957

(millions of dollars)

	1956	1957	Change in 1957
commodity trade			
Exports adjusted	4,833	4,909	+ 76
Imports adjusted	5,567	5,487	- 80
Balance	- 734	- 578	+ 156
Gold production available for export	+ 150	+ 147	- 3
Travel expenditures	- 162	- 161	+ 1
Interest and dividends	- 390	- 462	- 72
Freight and shipping	- 48	- 72	- 24
Inheritances and migrants' funds	- 14	-	+ 14
Official contributions	- 30	- 38	- 8
All other current transactions	- 144	- 219	- 75
Current account balance	-1,372	-1,383	- 11



Canada's surplus position with overseas countries declined by \$101 million to \$167 million in 1957 with \$69 million of this on commodity account and \$32 million from other transactions. This decrease is more than accounted for by a \$110 million decline in the surplus of Canada with the United Kingdom. In every quarter of 1957, the surplus with the United Kingdom was smaller than for the corresponding quarter of 1956. Of the total decline in 1957 \$95 million relates to a smaller surplus on merchandise trade, as imports from the United Kingdom of pipe and tubing, automobiles, and some kinds of machinery rose and as exports such as wheat and some non-ferrous metals declined. The remainder of the \$110 million decline in surplus relates to a larger deficit in non-merchandise items, and reflects for the most part, increased net payments by tourists and larger income remittances.

The current account balance with other overseas countries moved in a variety of ways in 1957. The surplus of the rest of the Sterling Area declined to \$9 million. The surplus with the OEEC countries rose by \$29 million to \$43 million, and the deficit with all other countries fell from \$48 million to \$29 million. The decline in the surplus with other Sterling Area countries to a level of \$9 million in 1957 resulted from a decline in receipts and a rise in payments for both commodities and non-merchandise items. Exports to these Sterling Area countries were for the most part maintained, but the total for the area declined in 1957 from the level in 1956 which included some special exports of aircraft to South Africa. In addition there was a substantial rise in imports of alumina arising from the increased use of Jamaica as a source of supply. This tendency towards a smaller surplus was reinforced by an increase in exports financed by Colombo Plan contributions. The larger surplus with other OEEC countries arose out of bigger net receipts for imports and smaller net payments for invisible items. While payments to OEEC countries rose on account of larger travel expenditures and income remittances, these were more than offset by a decline in Canadian defence expenditures in conjunction with the NATO commitments. The current account deficit with all other countries fell to \$29 million in 1957 primarily as a result of increased exports to countries such as Japan, Israel, Korea, and to Latin America which more than offset declines to Eastern Europe. These increased receipts on commodity account were somewhat offset by larger payments for a variety of miscellaneous services, including Canadian participation in the U.N. Emergency Force in the Middle East.

#### Capital movements

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises in 1957 is placed at \$525 million. This figure is some \$70 million below the record set in 1956, but is about \$100 million higher than for any earlier year. The level of inflows from the United States appears to have been little changed from the total of \$409 million recorded in 1956; this is particularly striking because the fourth quarter of 1956 included some extraordinarily large receipts which did not recur in 1957. Net inflows of capital for direct investment from both the United Kingdom and other overseas countries appear to have decreased.

A striking feature of capital movements in 1957 was the maintenance of inflows for direct investment at such a high level during a year in which economic activity showed some tendency to moderate. No less surprising was the fourth quarter inflow which amounted to \$155 million, compared to \$120 million in the third quarter. The fourth quarter inflow was equal to the inflow in the second quarter and was exceeded only on two earlier occasions.

Broadly speaking the industrial pattern of foreign direct investment inflows remained unchanged from 1956. Resource development and related industries continued to attract large amounts of foreign capital. On the basis of preliminary data nearly half the movement in each year went to the petroleum industry. The inflow to mining concerns appears to have more than maintained its relative position. Manufacturing inflows fell. Again in 1957 purchases by non-residents of interests in existing concerns represented a significant element in the inflow for investment in manufacturing. In 1957 such transactions appear to have been a somewhat higher proportion of the movement than in 1956.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$55 million in 1957. This figure is only half the amount recorded in 1956 and is the smallest annual movement since 1951. The record figure in 1956 included a number of transactions involving the transfer of ownership of major interests in existing enterprises abroad. More than half the decline in net outflows in 1957 is accounted for by these transactions.

As in 1956 portfolio security transactions were by far the largest source of foreign capital in 1957, being equivalent to more than one-half the current account deficit. The inflow reached a peak of \$316 million in the second quarter of the year shattering the record of \$304 million established in the third quarter of 1950 in a frenzy of exchange rate change expectations at that time. It then fell sharply to only \$45 million in the final quarter of 1957. The total of \$731 million for the year as a whole was only moderately below the record of \$760 million established in 1956, and was more than twice the amount of the previous record net inflow established in 1950. Residents of the United States provided some \$529 million of the net movement, compared with \$535 million in 1956. The net inflow from the United Kingdom rose from \$114 million in 1956 to \$127 million in 1957, but the inflow of \$75 million from other overseas countries fell well below the figure of \$111 million recorded in 1956.

Trade in outstanding Canadian issues was again dominated by the sale to non-residents of Canadian common and preference stocks, but unlike the three preceding years when successive new records reaching \$195 million in 1956 were established, the balance of \$140 million in 1957 represented a reduction of nearly 30

per cent from the previous year. On the other hand Canadians were net repurchasers of \$36 million of foreign-held Canadian bonds and debentures, and the balance from trade in all outstanding Canadian securities of \$104 million compared with \$207 million in 1956.

The proceeds of new issues of Canadian securities sold to non-residents again set a new record in 1957, amounting to \$762 million; this represented an increase of \$81 million or 12 per cent over the previous record established in 1956. The movement was heavily concentrated in the first half of the year, during which some 72 per cent of the inflow occurred. Corporations, provincial governments and municipalities were each important borrowers abroad. Retirements of foreign-held Canadian securities amounted during 1957 to \$152 million.

Transactions in foreign securities led to a net capital inflow of \$17 million. Canadians purchased \$21 million of new foreign issues, but holdings were reduced by the sale of \$32 million of outstanding issues and retirements of \$6 million.

Additional details of portfolio security transactions between Canada and other countries, including some special comment on deferred deliveries, will be found in the Dominion Bureau of Statistics report, "Sales and Purchases of Securities Between Canada and Other Countries, December 1957, and Review of Security Trading During 1957".

Repayments of principal on the war and post-war loans made by Canada to overseas governments totalled \$50 million in 1957 compared to \$69 million in 1956. The Government of the United Kingdom repaid \$30 million on the \$700 million interest-free loan of 1942, reducing the amount outstanding to \$30 million, and there were also principal repayments by Belgium, Czechoslovakia, France, the Netherlands, and Norway. The United Kingdom elected to defer the 1957 repayment of principal on the 1946 loan and this accounted for \$15 million of the decline in receipts compared with 1956. The repayment of \$2 million by Czechoslovakia was the final instalment due from that country. At the end of 1957 the outstanding balances on Canada's war and post-war loans of \$2,450 million amounted to \$1,481 million. There was in addition a further \$34 million owing to Canada on intergovernmental loans extended following World War I and on account of military relief settlements arising out of World War II. Principal is not currently being repaid on the inter-war loans or on the post-war loan made to China. These inactive loans totalled \$80 million.

An outflow of capital from Canada occurred from a reduction of \$35 million in holdings of Canadian dollars by non-residents. This outflow followed a similar movement of \$26 million in 1956, but there were inflows in each of the two preceding years. The reductions in 1957 occurred in the first half of the year, and there was an increase in non-resident holdings of Canadian dollars of \$25 million in the last half. About half the net decline over the year occurred in holdings of the United Kingdom; it will be recalled that at the end of 1956 these included \$22 million set aside to cover interest payable on the 1946 loan from Canada, payment of which was subsequently deferred.

Exchange transactions of the Government of Canada, including the operations of the Exchange Fund account, led to a substantial inflow of capital as official holdings of gold and foreign exchange were reduced. The net inflow over the year amounted to \$105 million including \$104 million from reduced holdings of gold and United States dollars and \$1 million from reduced holdings of sterling. In terms of United States dollars official holdings of gold and United States funds fell from \$1,936 million at the end of 1956 to \$1,828 million at the end of 1957. Holdings at the end of 1956 were close to the record month-end figure and a new record of \$1,973 million was established at the end of July. By the end of 1957 holdings had been reduced to their lowest month-end level since May 1954.

Other capital movements although again inward in 1957 as a whole, were not on balance quantitatively as important an element in Canada's balance of payments as in either 1955 or 1956. The net inflow shown for the year was \$62 million. Canadians added substantially to their bank balances and other short-term holdings in foreign currencies, but the inward movements of other types more than offset these outflows of capital. As was the case in 1956 there were on balance inflows in the first two quarters of the year followed by outflows in the remainder of the year. The inflows appear to have been chiefly a further net accumulation of short-term indebtedness on commercial account.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and

		1955		1956		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted).....	1,127	1,140	1,051	1,263	1,246
3	Gold production available for export .....	37	40	37	40	38
4	Travel expenditures .....	182	54	26	65	191
5	Interest and dividends .....	27	75	35	39	25
6	Freight and shipping.....	108	108	102	115	117
7	Inheritances and immigrants' funds .....	24	21	17	28	26
11	All other current receipts .....	105	104	91	112	108
12	<b>Total Current Receipts</b> .....	<b>1,610</b>	<b>1,542</b>	<b>1,359</b>	<b>1,662</b>	<b>1,751</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted).....	1,163	1,259	1,242	1,541	1,350
4	Travel expenditures .....	156	96	93	133	169
5	Interest and dividends .....	91	162	112	116	121
6	Freight and shipping.....	113	116	99	134	131
7	Inheritances and emigrants' funds .....	30	31	25	28	29
9	Official contributions .....	8	7	9	10	5
11	All other current payments.....	134	136	142	135	150
12	<b>Total Current Payments</b> .....	<b>1,695</b>	<b>1,807</b>	<b>1,722</b>	<b>2,097</b>	<b>1,955</b>
	Balance on Merchandise Trade .....	- 36	- 119	- 191	- 278	- 104
	Balance on Other Transactions, excluding B 9 .....	- 41	- 139	- 163	- 147	- 95
	Official Contributions.....	- 8	- 7	- 9	- 10	- 5
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 85</b>	<b>- 265</b>	<b>- 363</b>	<b>- 435</b>	<b>- 204</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 104	+ 113	+ 121	+ 169	+ 120
2	Direct investment abroad .....	- 12	- 39	- 66	- 5	- 24
	Canadian Securities					
3	Trade in outstanding issues .....	- 24	+ 25	+ 77	+ 43	+ 70
4	New issues.....	+ 17	+ 13	+ 111	+ 181	+ 178
5	Retirements .....	- 19	- 18	- 71	- 23	- 24
	Foreign Securities					
6	Trade in outstanding issues .....	+ 6	+ 11	- 16	+ 10	+ 10
7	New issues.....	- 4	- 22	- 1	- 5	- 3
8	Retirements .....	+ 14	-	-	-	-
	Loans by Government of Canada					
10	Repayment of post-war loans .....	+ 2	+ 27	-	+ 13	-
11	Repayment of war loans.....	+ 7	+ 8	+ 7	+ 8	+ 7
14	Change in Canadian dollar holdings of foreigners... +	6	+ 14	- 23	- 5	- 3
16	Change in official holdings of gold and foreign exchange (increase, minus).....	- 7	+ 36	+ 29	- 30	- 5
17	Other capital movements .....	- 5	+ 97	+ 195	+ 79	- 122
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 85</b>	<b>+ 265</b>	<b>+ 363</b>	<b>+ 435</b>	<b>+ 204</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) As used in the balance of payments, merchandise trade is adjusted to exclude such non-commercial items as settlers' effects and items like tourist purchases which are covered elsewhere in the accounts. Since 1951, furthermore, payments for defence purchases by governments have been substituted for the actual physical movements of the commodities as reported in Customs trade statistics.

A 11) This item includes government transactions (except merchandise trade and interest), personal remittances, miscellaneous income, B 11) insurance transactions, and business services.



BALANCE OF INTERNATIONAL PAYMENTS

data for 1956are subject to revision.

1956	1 9 5 7				Annual Totals				
	IV	I	II	III	IV	1954	1955	1956	1957
(millions of dollars)									
1,273	1,102	1,215	1,308	1,284	3,929	4,332	4,833	4,909	A
35	39	31	27	50	155	155	150	147	
54	30	77	199	56	305	328	336	362	
41	25	40	31	55	147	160	140	151	
116	104	113	107	97	313	398	450	421	
27	23	42	32	23	89	86	98	120	11
119	108	103	89	85	298	391	430	385	
1,665	1,431	1,621	1,793	1,650	5,236	5,850	6,437	6,495	
1,434	1,328	1,518	1,351	1,290	3,916	4,543	5,567	5,487	B
103	100	143	177	103	389	449	498	523	
181	129	148	136	200	423	483	530	613	
134	109	143	129	112	356	415	498	493	
30	27	30	31	32	94	105	112	120	
6	5	8	7	18	11	24	30	38	9
147	150	155	148	151	479	529	574	604	
2,035	1,848	2,145	1,979	1,906	5,668	6,548	7,809	7,878	
- 161	- 226	- 303	- 43	- 6	+ 13	- 211	- 734	- 578	12
- 203	- 186	- 213	- 136	- 232	- 434	- 463	- 608	- 767	
- 6	- 5	- 8	- 7	- 18	- 11	- 24	- 30	- 38	
- 370	- 417	- 524	- 186	- 256	- 432	- 698	-1,372	-1,383	
+ 185	+ 95	+ 155	+ 120	+ 155	+ 392	+ 417	+ 595	+ 525	C
- 15	- 20	- 15	- 15	- 5	- 81	- 74	- 110	- 55	
+ 17	+ 33	+ 47	+ 30	- 6	+ 63	- 27	+ 207	+ 104	
+ 211	+ 258	+ 293	+ 140	+ 71	+ 331	+ 166	+ 681	+ 762	
- 22	- 42	- 40	- 44	- 26	- 203	- 184	- 140	- 152	
+ 23	- 11	+ 17	+ 16	+ 10	+ 7	+ 25	+ 27	+ 32	D
- 6	- 4	- 3	- 8	- 6	- 33	- 48	- 15	- 21	
-	+ 1	+ 2	+ 1	+ 2	+ 2	+ 17	-	+ 6	
+ 26	-	+ 12	-	+ 8	+ 42	+ 39	+ 39	+ 20	
+ 8	+ 7	+ 8	+ 7	+ 8	+ 30	+ 30	+ 30	+ 30	
+ 5	- 33	- 27	+ 7	+ 18	+ 34	+ 89	- 26	- 35	14
- 27	+ 13	- 22	+ 53	+ 61	- 124	+ 44	- 33	+ 105	
- 35	+ 120	+ 97	- 121	- 34	- 28	+ 204	+ 117	+ 62	
+ 370	+ 417	+ 524	+ 186	+ 256	+ 432	+ 698	+1,372	+1,383	
									E

NOTES:  
D A minus sign indicates an outflow of capital from Canada.  
D1,2 Exclusive of undistributed profits.  
D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions.

Summary of Capital Movements, 1954 to 1957

(millions of dollars)

	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>Change 1957 from 1956</u>
Direct investment in Canada	+ 392	+ 417	+ 595	+ 525	- 70
Direct investment abroad	- 81	- 74	- 110	- 55	+ 55
Canadian securities:					
Trade in outstanding stocks	+ 129	+ 138	+ 195	+ 140	- 55
Trade in outstanding bonds	- 66	- 165	+ 12	- 36	- 48
New issues	+ 331	+ 166	+ 681	+ 762	+ 81
Retirements	- 203	- 184	- 140	- 152	- 12
Foreign securities	- 24	- 6	+ 12	+ 17	+ 5
Official loan repayments	+ 72	+ 69	+ 69	+ 50	- 19
Canadian dollar holdings of foreigners	+ 34	+ 89	- 26	- 35	- 9
Official holdings of gold and foreign exchange (increase, -)	- 124	+ 44	- 33	+ 105	+ 138
Other capital movements	- 28	+ 204	+ 117	+ 62	- 55
Net capital movement financing current account deficit	+ 432	+ 698	+1,372	+1,383	+ 11







# DOMINION BUREAU OF STATISTICS

OTTAWA - CANADA

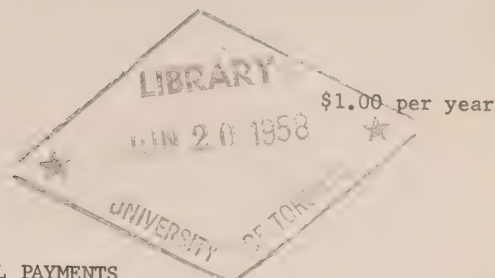


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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER, 1958 - 4

In the first quarter of 1958 Canada's deficit from current transactions in goods and services with other countries was again, at \$293 million, appreciably less than that of \$417 million in the corresponding period of 1957 but still higher than in any quarter before 1956. As in the previous quarter the greatest change occurred in the sharp contraction in the size of the import balance in commodity trade to \$69 million as imports fell more than exports. But once again the deficit from all other current transactions of \$224 million was more than in the same quarter of the previous year, and was responsible for most of the imbalance. The major part of this underlying imbalance continued to be from deficits on income and travel accounts, business services, personal remittances and official contributions. But the rises over the previous year were not general and were partly due to non-recurring transactions.

Among leading influences upon the size of the deficit was the impact of reduced business investment in Canada towards contracting merchandise imports. But at the same time the generally high levels of some branches of production and of incomes had sustaining effects upon many kinds of Canadian expenditure abroad, both in the case of some commodity imports and in other current transactions. As merchandise exports fell only slightly in total value from the previous year compared with a drop of 13 per cent in imports, the import balance on merchandise trade was reduced to \$69 million in 1958 from \$226 million in the first quarter of 1957. This change in balance occurred in a period when there was a deterioration in the terms of trade as import prices rose appreciably and export prices fell slightly.

### Sharp contraction in some merchandise imports

In the first quarter of 1958 the total value of Canadian exports was only some 1 per cent less than in the same period of 1957 when exports had been close to recent peaks. But this general maintenance of the total was the result of divergent trends in many leading commodities. Even though many prominent exports contracted significantly there were special factors raising exports of other commodities. The expansion of new export capacity in uranium was an important element serving to maintain the total, along with special shipments of wheat to some markets, unusually heavy demand for Canadian cattle and meat in the United States, large deliveries of aircraft on contract with non-residents, and an up-turn in shipments of farm implements and a few other commodities. Exports of some other leading commodities like lumber, steel, wheat and alcoholic beverages were generally sustained, but instances of declines were more numerous. The principal declines were in pulp and paper, pulpwood, petroleum, oilseeds, barley, aluminum, copper, lead, asbestos, and old ships.

Prepared in the Balance of Payments Section, International Trade Division.

67-509-38

Changes in regional distribution of exports arising from the above trends have been relatively small. Exports to the two largest markets, the United States and the United Kingdom were almost as great in total value in the first quarter of 1958 as in 1957, because of offsetting trends in different commodities, and represented about the same ratios of the total, 60 per cent and 15 per cent respectively. But to other countries there was a net decline, with however, divergent trends in various markets. A relatively large rise occurred in exports to the rest of the Sterling Area including automobiles to South Africa and large shipments of wheat to India under special financial arrangements. But exports to Europe, Japan, and Latin America were down considerably, the latter chiefly because of large non-recurring sales of used ships the previous year.

In contrast to the above trend in export totals, the value of imports again showed a substantial decline of 13 per cent in the first quarter from the level of the corresponding part of the previous year. Thus, the trend which had become prominent in the closing quarter of 1957 continued in 1958. The declines in imports have been most conspicuous in groups of commodities which have been imported in exceptional volume during the period in 1956 and 1957 when business investment in Canada was at peak levels. Among the commodities which have declined most were machinery and equipment, primary steel, and other rolling mill products. But by the first quarter other declines also appeared, although usually these were less pronounced and were more evident in industrial materials where inventories were undergoing readjustment. On the other hand some commodities continued to be imported in exceptional volume, even occasionally showing increases in the first quarter. One of the best examples of a recent unusually high level of imports is provided by British and European automobiles.

Virtually all of the reduction in imports as compared to the same quarter last year was from the United States; the value imported from the United Kingdom was maintained and there were relatively small changes in other overseas sources.

#### Large deficit continues from transactions in services and other non-merchandise items

The deficit in non-merchandise transactions in the first quarter of 1958 was \$33 million larger than that incurred in the first quarter last year. At \$224 million it was only slightly less than the record deficit in the fourth quarter of 1957. This increase in the deficit as compared to the same quarter of last year was the result of divergent and partially offsetting movements in the major items of the accounts. Three components moved to reduce, three to widen, and one to maintain the deficit. One of the items tending to narrow the overall deficit was gold available for export, which increased by \$5 million to \$44 million in the first quarter of this year. The increase may in part reflect the special and temporary decline in production which occurred in 1957. A marginal decline in both receipts and payments of income resulted in a smaller deficit in the first quarter. Interest payments rose still further as the impact continued to be felt of the extraordinary level of bonds sales to non-residents in 1956 and 1957. This rise however, was more than offset in the first quarter of 1958 by a decline in dividend payments, which was related primarily to a drop in remittances of subsidiaries and branches to parents in the United States. The small decline in receipts from non-residents was similarly related to lower income transfers from Canadian direct investments abroad. The revision of the reciprocal agreement relating to withholding tax on income payments to and from the United States, had a heavy impact in the first quarter of 1958; in this quarter dividends were payable at the reduced rate, and a number of refunds were made covering overpayments in 1957. It is expected that the increase in dividend payments to non-residents arising out of the amendment will be larger than the increase in receipts accruing to Canadians.

Receipts and payments for freight and shipping also continued to decline in the first quarter of 1958, and fell to levels below any quarter since 1955. As receipts fell from \$104 million to \$94 million, and payments from \$109 million to \$94 million, the deficit on this account disappeared. The decline in receipts and payments was related to the lower level of imports, and exports particularly of petroleum, and to smaller charter revenues.

An increase of \$1 million in expenditures of both Canadian tourists travelling abroad, and non-residents visiting Canada, resulted in an unchanged deficit of \$70 million in the first quarter this year. These increases are considerably less, when seasonal factors are taken into account, than those recorded in other quarters over the past two years.

A decline of some 40,000 people or 65 per cent in immigration in the first quarter of 1958 as compared to the same quarter of 1957 resulted in a sharp falling off in receipts of immigrants' funds. The major portion of the decline related to immigration from the United Kingdom, although of course the immigration of Hungarian refugees which was so significant in the first quarter of 1957, had almost disappeared by 1958. Emigration from Canada appeared to be somewhat lower in 1958 to date, and emigrants' remittances were comparably lower. Official contributions consisting largely of expenditures under the Colombo Plan were double those in the first quarter of 1957, but at \$10 million, were substantially below the final quarter of last year.



The increase in the deficit for miscellaneous services and all other "invisible" items was the major factor contributing to the enlarged non-merchandise deficit. Receipts continued to decline in the first quarter of 1958, reaching at \$84 million, the lowest level since early 1955. A factor in the decline was a further reduction in United States defence expenditures in Canada compared with the previous year. Payments for these miscellaneous transactions increased still further in the first quarter, reflecting in the main sustained and substantial expenditures for miscellaneous business services and income, personal and institutional remittances, and Canadian Government defence commitments in NATO. In addition there were some extraordinary payments of a non-recurring nature by the Canadian Government.

Summary of Current Transactions with the  
United States, United Kingdom, and Other Countries

First Quarter 1957 and 1958

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1957	1958	1957	1958	1957	1958	1957	1958
Merchandise exports (adjusted)	1,102	1,087	654	649	163	157	285	281
Merchandise imports (adjusted)	1,328	1,156	1,000	831	114	114	214	211
Balance on merchandise trade	- 226	- 69	- 346	- 182	+ 49	+ 43	+ 71	+ 70
Balance on non-merchandise trade	- 191	- 224	- 130	- 141	- 24	- 34	- 37	- 49
Current account balance	- 417	- 293	- 476	- 323	+ 25	+ 9	+ 34	+ 21

Transactions by areas

The decrease in the deficit from \$417 million to \$293 million from the first quarter of 1957 to the first quarter of 1958 is more than accounted for by \$153 million decline in the deficit with the United States. Somewhat offsetting these favourable movements vis-a-vis the United States was a smaller surplus with overseas countries which occurred in the case of transactions both with the United Kingdom and with other countries. Almost the whole of the \$153 million decline in the deficit with the United States since the first quarter of 1957 was related to merchandise trade. Exports to the United States fell only slightly in total, but large increases in a few commodities like cattle and uranium partly offset more general declines which were particularly notable in petroleum, non-ferrous metals and pulp and paper. This decline in the export total, however, was more than offset by a sharp drop in imports from that country, and the commodity trade deficit fell from \$346 million to \$182 million. The decline in imports from the United States from \$1 billion in the first quarter of 1957 to \$831 million in 1958 arose from a general contraction in Canadian demand for industrial machinery and equipment, iron and steel, and other industrial materials, and some consumer goods such as automobiles and parts. At the same time, there was a widening in the imbalance for non-merchandise items related for the most part to a decline in receipts from the United States for defence spending in Canada. But there has been in addition, some decline in income remitted by branches and wholly owned subsidiaries to parents in the United States and this has tended to reduce the growth of the deficit.

The surplus with the United Kingdom fell to \$9 million in the first quarter of 1958; this is the smallest surplus recorded since early in 1953. Only \$6 million of the decline from the first quarter 1957 was related to commodity trade, and this was entirely the result of a decline in exports, including such items as aluminum, copper, seeds, tobacco, and oil cake and meals. On the other hand, exports of some commodities increased including lumber, newsprint, nickel and chemicals. The balance of the decline in the surplus in the first quarter was related to a larger deficit on non-merchandise transactions. Receipts from the United Kingdom of income and immigrants' funds declined while payments for miscellaneous and special items rose. The surplus with other overseas countries declined to \$21 million in the first quarter 1958 from \$34 million in the same quarter last year. This change reflected a larger surplus with the rest of the Sterling Area, which was more than offset by a smaller surplus with OEEC countries and a larger deficit with all other countries. The increased surplus with the Sterling Area reflected larger exports of wheat and flour, railway rails, industrial equipment and other commodities, to India, Ceylon and South Africa. Some of the increase in exports to countries in Asia was financed by credits from the Government and through Colombo Plan contributions. The latter contributions increased from \$5 million to \$10 million from the first quarter of 1957 to 1958. The deterioration in the balance with OEEC and all other countries was primarily related to a decline in exports of wheat, flax seeds, and used ships. Declines were most notable in total exports to France, Germany, Belgium and Luxembourg, Japan, Panama, Mexico and the Philippines. In addition there were some special non-recurring payments to the OEEC which reinforced the contracting surplus.

# Capital movements

Capital movements in such long-term forms as direct investment, portfolio security transactions, and official loans led to an inflow of \$214 million or about 73 per cent of the current account deficit. In the final quarter of 1957 the corresponding inflow amounted to \$211 million or 82 per cent of the somewhat smaller current account deficit, and in the first quarter of that year the figure was \$317 million or 76 per cent.

The major changes in capital movements from the fourth quarter of 1957 to the first quarter of 1958 are shown below, with corresponding figures for the changes a year earlier.

	IV Quarter 1957 to I Quarter 1958	IV Quarter 1956 to I Quarter 1957
	Change in (millions of dollars)	
Direct investment	- 80	- 95
Portfolio securities	+ 108	+ 12
Official loans	- 16	-
Official loan repayments	- 9	- 27
Canadian dollar holdings of foreigners	- 41	- 38
Official holdings of gold and foreign exchange	- 100	+ 40
Other capital movements	+ 175	+ 155
	<hr/>	<hr/>
Net capital movement	+ 37	+ 47

(A minus sign indicates an increased capital outflow or a decreased capital inflow)

A very sharp contraction appears to have occurred in the rate of inflow of capital for direct investment in foreign-controlled enterprises in Canada. This is tentatively placed at \$75 million or at about half the figure for the final quarter of 1957. But it should be remembered that the fourth quarter movement was extraordinarily high and that the first quarter inflow has customarily been lower than average. Preliminary data indicate that inflows to manufacturing fell sharply, and that inflows to the petroleum industry and mining accounted for a very high proportion of the total. The decline from the fourth quarter occurred about proportionately in the net movements from the United States, from the United Kingdom, and from other overseas countries.

The net outflow of capital from Canada for direct investment abroad is placed at \$5 million, or about the same level as in the fourth quarter of 1957.

Transactions in Canadian portfolio securities led to a net inflow of \$145 million. Trade in outstanding issues resulted in a net outflow of \$3 million and retirements of foreign-held Canadian debt amounted to \$16 million, the lowest figure recorded in any quarter since 1953. Against these outflows of capital there were receipts of \$164 million representing the proceeds of new issues sold to non-residents. This figure was well above the levels of the third or fourth quarters of 1957 but greatly below the peak of \$293 million reached in the second quarter. In the preceding period it is necessary to go back to the first quarter of 1956 to find a smaller figure. Provincial governments were the largest external borrowers, followed closely by corporations. A somewhat greater spread between interest rates in Canada and in the United States was probably a factor contributing to the larger volume of new issues sold abroad. The increase in new issues sold abroad occurred despite a decline in gross new issues.

Transactions in foreign portfolio securities led to a net capital inflow of \$8 million as a result of trade in outstanding issues, purchases of new issues and retirements.

A feature of the Canadian balance of payments in the first quarter which has been absent since 1950 was the extension of Government credit to an overseas Government. Advances to cover purchases of Canadian wheat by India amounted to \$16 million. There were no repayments due during the quarter on Canada's active post-war loans, but the regular quarterly principal repayment of \$7.5 million was made by the United Kingdom in respect of the \$700 million interest free loan of 1942 on which the balance outstanding now amounts to \$22.5 million.

Canadian dollar holdings of non-residents were reduced by \$23 million during the quarter. More than half this decline was in holdings of residents of the United Kingdom.

A capital outflow amounting to \$39 million also occurred from the exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account. Official holdings of gold and United States dollars, expressed in terms of United States currency, were increased from \$1,828.3 million at December 31, 1957, to \$1,867.7 million at March 31, 1958.

Other capital movements appear on balance to have resulted in an inflow of \$141 million; large inflows in this item also occurred in the first quarters of 1956 and 1957.

The Canadian dollar strengthened on the world's exchange markets over the first quarter although the strengthening was not as pronounced as the decline which occurred through the fourth quarter of 1957. The closing quotation for the United States dollar in Canada in 1957 was 98.41 cents; at the end of the first quarter it was 97.44 cents. The high during the quarter was 99.16 cents reached in early January, and the closing rate was the low for the quarter, giving a trading range of 1.72 cents. The noon average for the quarter was 98.11 cents; this compared with 96.82 cents for the final quarter of 1957.

Summary of Capital Movements, by quarters, 1956 - 1958

(millions of dollars)

	1956	1957				1958
	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Direct investment in Canada	+ 185	+ 95	+ 155	+ 120	+ 155	+ 75
Direct investment abroad	- 15	- 20	- 15	- 15	- 5	- 5
Canadian securities:						
Trade in outstanding bonds	- 12	- 8	- 1	- 14	- 13	- 1
Trade in outstanding stocks	+ 29	+ 41	+ 48	+ 44	+ 7	- 2
New issues	+ 211	+ 258	+ 293	+ 140	+ 71	+ 164
Retirements	- 22	- 42	- 40	- 44	- 26	- 16
Foreign securities	+ 17	- 14	+ 16	+ 9	+ 6	+ 8
Loans by Government of Canada:						
Drawings	-	-	-	-	-	- 16
Repayments	+ 34	+ 7	+ 20	+ 7	+ 16	+ 7
Canadian dollar holdings of foreigners	+ 5	- 33	- 27	+ 7	+ 18	- 23
Official holdings of gold and foreign exchange (increase, -)	- 27	+ 13	- 22	+ 53	+ 61	- 39
Other capital movements	- 35	+ 120	+ 97	- 121	- 34	+ 141
Net capital movement financing current account deficit	+ 370	+ 417	+ 524	+ 186	+ 256	+ 293



### Unprecedented increase in Canada's foreign debt

The Bureau's estimates of long-term investment in Canada owned by non-residents and of Canadian long-term investment abroad at the end of 1956 have now been completed and are given in summary form in an accompanying statement. Complete industrial detail will be published in the annual report on "The Canadian Balance of Payments, 1957, and International Investment Position", together with preliminary estimates of totals at the end of 1957.

Among the features revealed in the statement is an increase in the year 1956 alone of over \$2 billion in non-resident long-term investment in Canada. Direct investment grew by \$1,104 million, foreign holdings of government and municipal bonds by \$266 million, other portfolio investments by \$535 million and miscellaneous investments by \$180 million. These increases totalled \$1 billion more than in 1954, the year of largest increase heretofore recorded. Total long-term investment in Canada by foreigners more than doubled in the eight years since the end of 1948 to reach nearly \$15.6 billion at the end of 1956. There has been a further substantial increase since that time.

Reflecting mainly the net inflows of capital and the retention of earnings accruing to non-resident owners, the long-term investment in Canada by residents of the United States increased in 1956 by 15 per cent. Investments of the United Kingdom rose by 13 per cent. But these growths were outpaced by the rise in investments of residents of other overseas countries which grew by 32 per cent in the year to more than double their total at the end of 1952.

The above changes in investments by non-residents have had pervasive effects upon the ownership and control of Canadian industry with so much of direct investment in branches and subsidiaries controlled abroad and of other investments in Canadian industry. The non-resident investments have been spread among most fields of business but are most concentrated in those areas of industry where large amounts of capital are invested such as in petroleum in all its branches, in the development of other minerals and natural resources, and in large scale manufacturing. As a result more than four-fifths of the petroleum industry is controlled abroad while in the rest of mining the ratios of non-resident ownership and control are well over one-half. And in the broad sphere of manufacturing, excluding petroleum refining, the ratios are not far from one-half, but well over one-half in the case of control if petroleum refining is included. It is in the corporate sphere of Canadian businesses engaged in commodity production that the non-resident investments are heaviest and are usually accompanied by control. In contrast non-resident control is generally absent in the non-corporate spheres like agriculture, small scale merchandising, or utilities operated by governments and municipalities, although there has of late been again a growing non-resident ownership of bonds issued by provincial and municipal governments as well as corporations.

Canadian long-term investments abroad have also grown somewhat, rising on balance by \$89 million during 1956 to nearly \$4.5 billion. It should be borne in mind that this figure cannot be set directly against the total of non-resident long-term investments in Canada, because non-residents have a substantial equity in Canadian long-term investments abroad through their ownership of Canadian corporations. This equity amounted to \$770 million at the end of 1956. The existence of this non-resident interest tends to be overlooked in per capita comparisons of Canadian and United States investment abroad. The beneficial Canadian interest in long-term investments outside Canada of \$3,696 million amounted to more than \$225 per capita. On the other hand long-term investments outside the United States owned by residents of that country were about \$40 per capita greater. Foreign long-term investment in Canada by all non-residents represented a claim of over \$950 per capita of Canadian population. The corresponding United States liability was under \$90.

Taking into account all Canadian external assets and liabilities other than short-term commercial indebtedness and holdings of blocked currencies, Canada's net international indebtedness is now calculated to have been \$9.8 billion at the end of 1956, having risen from \$3.7 billion since the end of 1949. Additional borrowing in 1957 brought the figure to over \$11 billion, and a further increase is indicated by developments thus far in 1958.

Selected Statistics of Canada's International Investment Position, 1945 - 1956

(millions of dollars)

	1945	1949 <sup>(1)</sup>	1953	1954	1955	1956
FOREIGN LONG-TERM INVESTMENTS IN CANADA OWNED BY:						
ALL NON-RESIDENTS						
Direct investments	2,713	3,586	6,003	6,764	7,725	8,829
Government and municipal bonds	1,662	1,755	2,087	2,056	1,868	2,134
Other portfolio investments	2,433	2,320	2,904	3,163	3,237	3,772
Miscellaneous investments	284	302	467 <sup>(2)</sup>	561	641	821
TOTAL	7,092	7,963	11,461	12,544	13,471	15,556
RESIDENTS OF THE UNITED STATES <sup>(3)</sup>						
Direct investments	2,304	3,095	5,206	5,787	6,516	7,364
Government and municipal bonds	1,450	1,534	1,870	1,822	1,639	1,871
Other portfolio investments	1,106	1,107	1,537	1,753	1,758	2,075
Miscellaneous investments	130	170	257 <sup>(2)</sup>	302	367	475
TOTAL	4,990	5,906	8,870	9,664	10,280	11,785
RESIDENTS OF THE UNITED KINGDOM <sup>(3)</sup>						
Direct investments	348	428	612	759	884	1,042
Government and municipal bonds	157	171	150	144	141	152
Other portfolio investments	1,160	1,051	1,130	1,137	1,167	1,299
Miscellaneous investments	85	67	116 <sup>(2)</sup>	137	157	168
TOTAL	1,750	1,717	2,008	2,177	2,349	2,661
RESIDENTS OF ALL OTHER COUNTRIES						
Direct investments	61	63	185	218	325	423
Government and municipal bonds	55	50	67	90	88	111
Other portfolio investments	167	162	237	273	312	398
Miscellaneous investments	69	65	94 <sup>(2)</sup>	122	117	178
TOTAL	352	340	583	703	842	1,110
CANADIAN LONG-TERM INVESTMENTS <sup>(4)</sup> IN ALL FOREIGN COUNTRIES						
Direct investments	720	926	1,485	1,628	1,749	1,903
Portfolio investments	621	638	869 <sup>(2)</sup>	926	993	998
Government of Canada credits	707	2,000	1,778	1,705	1,635	1,565
TOTAL	2,048	3,564	4,132	4,259	4,377	4,466
UNITED STATES						
Direct investments	455	721	1,127	1,240	1,301	1,407
Portfolio investments	409	443	564 <sup>(2)</sup>	579	628	635
TOTAL	864	1,164	1,691	1,819	1,929	2,042
UNITED KINGDOM						
Direct investments	54	59	104	119	131	139
Portfolio investments	53	40	29	31	46	48
Government of Canada credits	561	1,434	1,292	1,247	1,202	1,157
TOTAL	668	1,533	1,425	1,397	1,379	1,344
ALL OTHER COUNTRIES						
Direct investments	211	146	254	269	317	357
Portfolio investments	159	155	276	316	319	315
Government of Canada credits	146	566	486	458	433	408
TOTAL	516	867	1,016	1,043	1,069	1,080

NOTES: Data represent book values. As the fiscal year-ends of some corporations do not correspond with the calendar year, comparisons of year to year changes with balance of payments data should be made with caution. The estimates are also affected by reclassifications between direct and portfolio series and by accounting adjustments in the basic data. Figures for 1956 are subject to revision.

(1) Prior to 1949 Newfoundland was classified as an "other country".

(2) New series not strictly comparable with earlier years.

(3) Including some investments held as nominees for other countries.

(4) Excluding investments of insurance companies and banks, and subscriptions by the Government of Canada to the IBRD, IFC and IMF, but including the equity of non-residents in assets abroad of Canadian companies amounting at the end of 1956 to \$770 million.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1957 are preliminary and 1958

		1956			
		I	II	III	IV
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,051	1,263	1,246	1,273
3	Gold production available for export .....	37	40	38	35
4	Travel expenditures .....	26	65	191	54
5	Interest and dividends .....	35	39	25	41
6	Freight and shipping .....	102	115	117	116
7	Inheritances and immigrants' funds .....	17	28	26	27
11	All other current receipts .....	91	112	108	119
12	<b>Total Current Receipts</b> .....	<b>1,359</b>	<b>1,662</b>	<b>1,751</b>	<b>1,665</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,242	1,541	1,350	1,434
4	Travel expenditures .....	93	133	169	103
5	Interest and dividends .....	112	116	121	181
6	Freight and shipping .....	99	134	131	134
7	Inheritances and emigrants' funds .....	25	28	29	30
9	Official contributions .....	9	10	5	6
11	All other current payments .....	142	135	150	147
12	<b>Total Current Payments</b> .....	<b>1,722</b>	<b>2,097</b>	<b>1,955</b>	<b>2,035</b>
	Balance on Merchandise Trade .....	- 191	- 278	- 104	- 161
	Balance on Other Transactions, excluding B 9 .....	- 163	- 147	- 95	- 203
	Official Contributions .....	- 9	- 10	- 5	- 6
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 363</b>	<b>- 435</b>	<b>- 204</b>	<b>- 370</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 121	+ 169	+ 120	+ 185
2	Direct investment abroad .....	- 66	- 5	- 24	- 15
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	+ 46	- 14	- 8	- 12
3b	Trade in outstanding common and preference stocks .....	+ 31	+ 57	+ 78	+ 29
4	New issues .....	+ 111	+ 181	+ 178	+ 211
5	Retirements .....	- 71	- 23	- 24	- 22
	Foreign Securities				
6	Trade in outstanding issues .....	- 16	+ 10	+ 10	+ 23
7	New issues .....	- 1	- 5	- 3	- 6
8	Retirements .....	-	-	-	-
	Loans by Government of Canada				
9	Drawings .....	-	-	-	-
10,11	Repayments .....	+ 7	+ 21	+ 7	+ 34
14	Change in Canadian dollar holdings of foreigners .....	- 23	- 5	- 3	+ 5
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 29	- 30	- 5	- 27
17	Other capital movements .....	+ 195	+ 79	- 122	- 35
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 363</b>	<b>+ 435</b>	<b>+ 204</b>	<b>+ 370</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

Data for 1956 are subject to revision.

1957				1958	Annual Totals		Four Quarters Ending Mar. 31, 1958		
I	II	III	IV	I	1955	1956	1957	Mar. 31, 1958	
(millions of dollars)									
1,102	1,215	1,308	1,284	1,087	4,332	4,833	4,909	4,894	A
39	31	27	50	44	155	150	147	152	1
30	77	199	56	31	328	336	362	363	3
25	40	31	55	24	160	140	151	150	4
104	113	107	97	94	398	450	421	411	5
23	42	32	23	18	86	98	120	115	6
108	103	89	85	84	391	430	385	361	7
									11
1,431	1,621	1,793	1,650	1,382	5,850	6,437	6,495	6,446	12
1,328	1,518	1,351	1,290	1,156	4,543	5,567	5,487	5,315	B
100	143	177	103	101	449	498	523	524	1
129	148	136	200	126	483	530	613	610	4
109	143	129	112	94	415	498	493	478	5
27	30	31	32	25	105	112	120	118	6
5	8	7	18	10	24	30	38	43	7
150	155	148	151	163	529	574	604	617	9
									11
1,848	2,145	1,979	1,906	1,675	6,548	7,809	7,878	7,705	12
226	- 303	- 43	- 6	- 69	- 211	- 734	- 578	- 421	
186	- 213	- 136	- 232	- 214	- 463	- 608	- 767	- 795	
5	- 8	- 7	- 18	- 10	- 24	- 30	- 38	- 43	
417	- 524	- 186	- 256	- 293	- 698	-1,372	-1,383	-1,259	C
									D
95	+ 155	+ 120	+ 155	+ 75	+ 417	+ 595	+ 525	+ 505	1
20	- 15	- 15	- 5	- 5	- 74	- 110	- 55	- 40	2
8	- 1	- 14	- 13	- 1	- 165	+ 12	- 36	- 29	3a
41	+ 48	+ 44	+ 7	- 2	+ 138	+ 195	+ 140	+ 97	3b
258	+ 293	+ 140	+ 71	+ 164	+ 166	+ 681	+ 762	+ 668	4
42	- 40	- 44	- 26	- 16	- 184	- 140	- 152	- 126	5
11	+ 17	+ 16	+ 10	+ 10	+ 25	+ 27	+ 32	+ 53	6
4	- 3	- 8	- 6	- 3	- 48	- 15	- 21	- 20	7
1	+ 2	+ 1	+ 2	+ 1	+ 17	-	+ 6	+ 6	8
-	-	-	-	- 16	-	-	-	- 16	9
7	+ 20	+ 7	+ 16	+ 7	+ 69	+ 69	+ 50	+ 50	10,11
33	- 27	+ 7	+ 18	- 23	+ 89	- 26	- 35	- 25	14
13	- 22	+ 53	+ 61	- 39	+ 44	- 33	+ 105	+ 53	16
120	+ 97	- 121	- 34	+ 141	+ 204	+ 117	+ 62	+ 83	17
417	+ 524	+ 186	+ 256	+ 293	+ 698	+1,372	+1,383	+1,259	E

## NOTES:

A minus sign indicates an outflow of capital from Canada.

1.2 Exclusive of undistributed profits.

17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.











Vol. 6, No. 2

QUARTERLY ESTIMATES OF  
THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS  
SECOND QUARTER, 1958.

Canada's current deficit from transactions in goods and services with other countries in the first half of 1958 was \$600 million compared with \$955 million in the same half of 1957. Deficits of \$289 million and \$311 million in each of the first and second quarters were both substantially less than \$427 million and \$528 million in the corresponding quarters of 1957, or in 1956, but were still higher than in any year before 1956.

The general pattern of the balance of payments in the half year was broadly similar to that in each quarter. The leading change in the half year and in each quarter has been the sharp contraction in the import balance. This part of the deficit has been much less than in the first half of the two previous years. The balance of merchandise imports this year of \$145 million was between one-quarter and one-third of the balance from the same source last year. In contrast large deficits continued to result from other transactions than merchandise trade. In the half year the deficit from this source of \$455 million compares with \$426 million in the same period last year. But this year it makes up about three-quarters of the deficit, whereas last year it was well under half in this same period, although in the full year the ratio was more than this. The increase in this part of the deficit is much more moderate than in 1957 when the rise over 1956 was almost one-third.

The reduced deficit on merchandise account is the joint result of slightly higher exports of merchandise and substantially less imports of merchandise. The maintenance of the deficit from other transactions in the second quarter and the increase in the half year is the result of various trends in opposite directions. Contributing to the larger deficit in the half year have been increased net payments on account of official contributions, travel, migrants' funds, and other current transactions. Adverse trends in these items more than offset reduced deficits on income, and freight and shipping account, and larger receipts from gold.

In each quarter a prominent factor influencing the reduced deficit was the sharp reduction in imports of commodities appearing generally related to business investment in Canada. But other imports and expenditures abroad continued to be very substantial accompanying the high levels of activity in the economy. Growing indebtedness abroad and high personal incomes and public investment continued to give rise to heavy Canadian expenditures abroad on services and other non-merchandise transactions. Although the total value of imports was more than sustained by special circumstances affecting several commodities, there was reduced demand for many leading export staples, particularly for some metals, minerals, and forest products sold to the United States.

As shown in the more detailed comment which follows later, the declining current account deficit was accompanied by lower levels of capital inflow in long-term forms, and in relative terms the financing did not differ greatly between the first half of 1957 and 1958. Movements in the long-term forms shown separately in balance of payments statements fell 29 per cent in the six month comparison, compared to a decline of 10 per cent in the current account deficit itself.

Prepared in the Balance of Payments Section, International Trade Division.

103-509-68

Accordingly movements in short-term forms on balance played a smaller role in 1958 in both absolute and relative terms, than in 1957, although an outflow of \$92 million for increased official holdings of gold and foreign exchange compared with \$9 million in the preceding period was a notable element.

#### Sharp contraction in deficit from merchandise trade

In both the first and second quarter a sharp contraction in the merchandise trade balance from the exceptional imbalance of 1956 and 1957 constituted the outstanding change in the current account. In the first and second quarter this year the import balances on merchandise account were \$66 million and \$79 million respectively, compared with \$226 million and \$303 million in the corresponding quarters of 1957. In the first quarter of 1958 this change was entirely due to the fall in imports as exports were also slightly lower but in the second quarter a gain in exports contributed some \$62 million as well as the continued substantial fall in imports of \$162 million from the previous year.

In the half year the excess of merchandise imports over exports amounted to \$145 million compared with \$529 million in the first half of 1957. Of this change of \$384 million a rise in exports was responsible for \$47 million and the fall in imports for the remaining \$337 million.

The rise in Canadian exports in the second quarter of 1958 of some 5 per cent over the same period of 1957 followed a slight decline in the first quarter. There was consequently a small rise of about 2 per cent when the half year is compared with 1957. This continued to be the result of a variety of trends in opposite directions in the case of many leading commodities. There were some relatively concentrated increases in such commodities as grain, uranium, cattle, aircraft, and farm machinery. These were mainly responsible for more than offsetting the numerous instances of declines. Among the more prominent declines in exports were metals and minerals like petroleum, aluminum, and most other base metals, iron ore, and asbestos, and leading forest products like pulp and paper.

The total of exports was more than sustained by larger shipments overseas with the United States taking about 57 per cent compared with about 60 per cent in 1957. More exports went overseas than in the previous year and the increases were chiefly to the United Kingdom, to other Commonwealth countries in Asia, and to some European countries. These increases were mainly due to larger exports of grains and to concentrations of deliveries of aircraft to destinations like Germany and Belgium. Trends in other commodities to the United Kingdom and Europe were mixed but demands for some industrial materials to these destinations continued to be strong. In contrast some of the larger contractions in exports were in commodities to the United States, but the effects of these on the total were moderated by the sharp rises in uranium and cattle to that country and the total exported to the United States was only slightly down. Declines were appreciable to some other countries such as in grains to Japan, and to some countries of Latin America, but these were partly due to abnormal items like ships to Panama in the previous year.

The reduction in merchandise imports which occurred in the second quarter was somewhat less than in the preceding quarter, although the decline from the high level of the second quarter 1957 was still of substantial proportions, amounting to 10 per cent. In the half year the decline was some 11 per cent. The declines continued to be most concentrated in groups of commodities which have been subject to the greatest expansion during the last few years of exceptionally high business investment such as machinery and equipment for industry, and primary and secondary steel. But reductions have also occurred in imports of other commodities as well, such as industrial materials accompanying declines in production or reductions in inventories of materials. Imports of coal and crude petroleum were also down appreciably but less significant changes have occurred in imports of consumer goods.

By far the largest part of the reduction has been from the United States, both in the second quarter and the half year. In contrast, imports from the United Kingdom were slightly higher and the declines in imports from the rest of the Sterling Area and from other countries were relatively small.

#### Moderate rise in large deficit from services and other non-merchandise items

The deficit from services and other non-merchandise transactions, constituting the major part of the current account deficit this year, continued to grow to \$455 million in the half year but more moderately than in the previous year. While some of the factors leading to fluctuations having notable effects upon this deficit are sporadic and non-recurring, the major portion of the deficit continues to originate in basic unbalance of substantial size in the three accounts; travel, interest and dividends, and all other current transactions with deficits in the first half year of \$138 million, \$193 million, and \$161 million respectively. While dividend transfers by subsidiaries in Canada to parent companies abroad were lower than in the same half year in 1957 there were at the same time some substantial non-recurring payments on government account. Although there were lower dividend transfers by subsidiaries it is notable that capital repayments by this group of companies were growing during the period and these are reflected in the capital account.

The diverse trends influencing the larger deficit from non-merchandise transactions had the following outlines and origins. Exports of goods and services financed by official contributions by the Canadian Government continued to rise over the previous year. The chief of these contributions was again the Colombo Plan. There was, in addition, wheat provided to Pakistan and flour to the Middle East. Migrant:



funds and inheritances gave rise to a deficit this year compared to a surplus last year, when immigration transfers were at a peak, chiefly because of the reduced volume of immigration this year. The deficit on travel account rose only slightly as Canadian expenditures on travel both in the United States and in overseas countries showed little change in contrast to large rises in recent years. The group "all other current receipts and payments" led to a substantially much larger deficit this year as expenditures on defence installations in Canada fell and non-recurring Canadian government payments abroad rose.

Trends working in the opposite direction offsetting part of the above increase in the payments balance were reduced deficits on income and on freight and shipping accounts and larger amounts of gold available for export. The reduced deficit on income account was due to smaller dividend transfers by subsidiary companies as dividends paid to non-resident shareholders by public companies were maintained and interest payments on Canadian bonds held abroad rose by over 20 per cent, again reflecting chiefly the substantial sales of new Canadian bond issues abroad in earlier periods. On freight and shipping account the greater declines in payments than in receipts partly reflected the sharp drop in the volume of imports, but this was also influenced by the contraction in imports of fuels and other commodities on which freight costs are heavy. The reduction in receipts in face of the overall rise in exports was influenced by changes in the composition of export commodities as well as the reduced Canadian merchant marine. The increased gold available for export this year reflects rising production and the temporary effect on the item last year of alterations of refining facilities.

Summary of Current Transactions with the  
United States, United Kingdom and Other Countries, 1957 and 1958

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1957	1958	1957	1958	1957	1958	1957	1958
<u>Second quarter</u>								
Merchandise exports (adjusted)	1,215	1,277	725	719	180	207	310	351
Merchandise imports (adjusted)	1,518	1,356	1,084	938	144	149	290	269
Balance on merchandise trade	- 303	- 79	- 359	- 219	+ 36	+ 58	+ 20	+ 82
Balance on non-merchandise trade	- 225	- 232	- 191	- 176	- 7	- 23	- 27	- 33
Current account balance	- 528	- 311	- 550	- 395	+ 29	+ 35	- 7	+ 49
<u>January to June</u>								
Merchandise exports (adjusted)	2,317	2,364	1,379	1,368	343	364	595	632
Merchandise imports (adjusted)	2,846	2,509	2,084	1,767	258	262	504	480
Balance on merchandise trade	- 529	- 145	- 705	- 399	+ 85	+ 102	+ 91	+ 152
Balance on non-merchandise trade	- 426	- 455	- 328	- 321	- 32	- 55	- 66	- 79
Current account balance	- 955	- 600	-1,033	- 720	+ 53	+ 47	+ 25	+ 73

## Transactions by areas

The principal change during the half year in the bilateral distribution of Canada's current account was a sharp fall in the current deficit with the United States to \$720 million from \$1,033 million. Along with this was an increase in the surplus with overseas countries to \$120 million from \$78 million. The reduction in the deficit with the United States was distributed fairly evenly in both the first and second quarters whereas the increase in the surplus with overseas occurred entirely in the second quarter.

The deficit with the United States was about 70 per cent of that in the same period of 1957 and also less than in that part of 1956, but was still higher than in any earlier half year. Almost all of the contraction occurred in the import balance from merchandise trade. The deficit from non-merchandise transactions of \$321 million with the United States remained close to the level of the previous year with most of this continuing to originate in this period in the leading accounts shown in the balance of payments.

The increased surplus with all overseas countries was concentrated in the accounts with the Rest of the Sterling Area and with the OEEC countries. There was a small decline in the surplus with the United Kingdom and a rise in the deficit with other countries.

The reduced surplus with the United Kingdom resulted from a considerable increase in the deficit from non-merchandise items as the surplus on merchandise trade was greater. This change was due in part to non-recurring settlements included in all other current payments, and smaller receipts on shipping account and from transfers by immigrants.

The rise in the surplus with countries other than the United States and the United Kingdom shown in the accompanying summary statement chiefly originated in merchandise trade with the Rest of the Sterling Area. One of the leading factors contributing to this was the rise in exports to Commonwealth countries in Asia which was chiefly due to larger shipments of wheat to India financed from the Canadian loan to the Government of India referred to in the note on the capital account. There were also larger exports of wheat and other commodities financed by contributions from the Canadian Government including the Colombo Plan, which contributions were almost twice as high as in the previous year.

## Capital movements

Capital movements taking the form of direct investment, portfolio security transactions, and official loans resulted in an inflow of \$357 million in the second quarter of the year, or about 15 per cent more than the current account deficit in this period. The total was substantially greater than for any similar period covered in the quarterly estimates which began with 1950, with the exception of 1956 and 1957. In the first quarter the capital import in these forms totalled \$220 million which was about 24 per cent less than the current account deficit. This was the only second quarter within this period in which a current account deficit was more than covered by capital inflows of the type listed, although in the second quarter of 1952 there was an exceptional current account surplus.

For the first six months of 1958 capital inflows for direct investment, portfolio security transactions and official loans totalled \$577 million equivalent to 96 per cent of the current account deficit. In the comparable period of 1957 the figures were \$812 million and 85 per cent. The composition of the inflow was broadly similar in each period, although the amounts were smaller. Net direct investment movements, which fell by 25 per cent, accounted for 22 per cent of the total capital movement in the first half of 1957, 27 per cent in 1958. Portfolio security transactions, which fell by 27 per cent, accounted for 60 per cent and 69 per cent respectively of the total capital movement in the first six months of 1957 and 1958. Intergovernmental loan repayments, representing 3 per cent of the total inflow in the first half of 1957, were completely offset in 1958 by new extensions of credit.

The net inflow of capital for direct investment in foreign-controlled enterprises is estimated to have amounted to \$90 million in the second quarter of 1958, or about \$5 million more than in the first quarter. But while the first quarter movement was only \$6 million lower than in the corresponding period of 1957, the second quarter movement was \$73 million lower, and the total of \$175 million for the first half of 1958 was down sharply from the inflow of \$254 million in the first six months of 1957. It is necessary to go back to 1952 to find a smaller figure for the first half. Comparing the first half of each year, the decline in 1958 was greater in the case of overseas countries than the United States, due to special inflows of a non-recurring character from overseas in 1957. About four-fifths of the net movement in 1958 and somewhat under three-quarters in the corresponding period of 1957 was from the United States. Inflows to the petroleum industry fell to about three-quarters of their level in the first half of 1957, but inflows for mining operations doubled, and the net movement to these industries was not greatly different in the two periods. On the other hand net inflows to manufacturing, merchandising, and other concerns all dropped sharply, reflecting both reduced inflows and increased repayments of capital.

The net outflow of capital from Canada for direct investment abroad is placed tentatively at \$5 million in the second quarter of 1958, compared with \$10 million in the first quarter. This net movement of \$15 million is down sharply from the total of \$42 million for the first half of 1957.



Transactions in Canadian portfolio securities led to a net capital inflow of \$264 million in the second quarter of 1958 following an inflow of \$146 million in the first quarter. While higher than the inflows in the third and fourth quarters of 1957, these movements were well below those in the corresponding quarters of that year. The net inflow in the first six months of 1958 totalled \$410 million and reflected new issues of \$461 million, offset by repurchases of \$9 million outstanding Canadian bonds and stocks and by retirements of \$42 million foreign-owned Canadian securities. It compared with \$570 million in the first half of 1957 and \$177 million in the second half of that year.

The principal reasons for the change from the first half of 1957 to the first half of 1958 were smaller sales to non-residents of new issues of Canadian securities and of outstanding Canadian stocks. New issues totalling \$461 million were \$99 million smaller than in the first half of the preceding year. This decrease reflected lower levels of industrial investment activity; Sales to non-residents of new issues of governments and municipalities rose by \$120 million, but new issues of bonds, debentures and stocks of Canadian corporations fell \$219 million. Figures compiled by the Bank of Canada show total new Canadian corporate issues of \$1,120 million in the first half of 1957 and of \$673 million this year. The new issues sold to non-residents represented 37 per cent in the first period and 28 per cent in the second. Sales of outstanding Canadian stocks, which had led to significant net imports of capital for some time past resulted in the first half of 1958 in a net inflow of only \$3 million, in sharp contrast to the net inflows of \$87 million and \$50 million respectively in the first and second halves of 1957.

All transactions in foreign portfolio securities led on balance to a capital outflow of \$1 million in the second quarter, reducing the inflow for the six months to \$7 million.

During the quarter Canada advanced a further \$8 million to cover purchases of Canadian wheat by India, bringing the total in the six month period to \$24 million. There were principal repayments by the United Kingdom on the 1942 loan to that country and by Belgium, the Netherlands, and Norway on loans made under Part II of the Export Credits Insurance Act. These repayments totalled \$17 million in the second quarter, and together with the repayment in the first quarter by the United Kingdom equalled the extension of new credit to India in the half year.

Canadian dollar holdings of non-residents rose by \$39 million during the second quarter. This substantial inflow had not been exceeded in any quarter since 1953. Most of the increase occurred in holdings of residents of the United States. In the first quarter there was an outflow of \$17 million, when reductions in holdings of residents of the United Kingdom contributed largely to the change.

A capital outflow of \$53 million occurred from the exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account, during the second quarter. This outflow followed a similar movement of \$39 million in the first quarter, and the official holdings of gold and United States dollars, expressed in terms of United States currency, rose from \$1,828.3 million at the beginning of the year to \$1,921.4 million on June 30.

Other capital movements resulted, on balance, in an outflow of \$32 million in the second quarter. It has been customary for a substantial inflow to arise from these movements in the second quarter. In 1952 there were significant outflows, but it will be recalled that restrictive bank lending policies were in force in Canada through most of the previous year, and these had contributed to inflows which more than offset any withdrawal of the speculative inflows of 1950; as credit restrictions were progressively relaxed and as the Canadian dollar strengthened in 1952 there were substantial reversals of the inflows of the two preceding years. But with this special exception, there were until 1958 net inflows from "other capital movements" in the second quarter of each year since the establishment of regular quarterly estimates in 1950; in the five years 1953 to 1957 these inflows ranged between \$41 million and \$111 million, and they averaged \$84 million. These figures include a variety of capital movements, the most important of which are usually changes in bank balances and other short-term funds abroad (excluding official reserves), and changes in loans and accounts receivable and payable.

The Canadian dollar continued to strengthen on world exchange markets during the second quarter of 1958. The quotation for the United States dollar in Canada fell from 97.44 cents at the beginning of the quarter to 95.91 cents at the end. The high during the quarter was 97.41 cents and the low was 95.75 cents. The noon average for the quarter was 96.64 cents which compared with 98.11 cents in the first quarter and 95.62 cents in the corresponding period of 1957.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1958 are preliminary and

		1956			1957
		II	III	IV	I
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,262	1,247	1,277	1,102
3	Gold production available for export .....	40	38	35	39
4	Travel expenditures .....	65	191	55	31
5	Interest and dividends .....	39	25	41	25
6	Freight and shipping .....	115	120	120	104
7	Inheritances and immigrants' funds .....	28	26	28	25
11	All other current receipts .....	114	110	124	111
12	<b>Total Current Receipts</b> .....	<b>1,663</b>	<b>1,757</b>	<b>1,680</b>	<b>1,437</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,542	1,351	1,427	1,328
4	Travel expenditures .....	133	169	103	100
5	Interest and dividends .....	110	128	170	129
6	Freight and shipping .....	134	132	137	109
7	Inheritances and emigrants' funds .....	28	31	31	27
9	Official contributions .....	10	5	6	5
11	All other current payments .....	142	157	150	166
12	<b>Total Current Payments</b> .....	<b>2,099</b>	<b>1,973</b>	<b>2,024</b>	<b>1,864</b>
	Balance on Merchandise Trade .....	- 280	- 104	- 150	- 226
	Balance on Other Transactions, excluding B 9 .....	- 146	- 107	- 188	- 196
	Official Contributions .....	- 10	- 5	- 6	- 5
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 436</b>	<b>- 216</b>	<b>- 344</b>	<b>- 427</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 167	+ 116	+ 181	+ 91
2	Direct investment abroad .....	- 4	- 23	- 11	- 20
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 14	- 8	- 13	- 10
3b	Trade in outstanding common and preference stocks .....	+ 54	+ 76	+ 29	+ 40
4	New issues .....	+ 176	+ 179	+ 200	+ 264
5	Retirements .....	- 23	- 25	- 22	- 41
	Foreign Securities				
6	Trade in outstanding issues .....	+ 8	+ 8	+ 22	- 10
7	New issues .....	- 6	- 4	- 6	- 4
8	Retirements .....	-	-	-	+ 1
	Loans by Government of Canada				
9	Drawings .....	-	-	-	-
10,11	Repayments .....	+ 21	+ 7	+ 34	+ 7
14	Change in Canadian dollar holdings of foreigners .....	- 5	- 2	+ 5	- 33
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 31	- 5	- 27	+ 13
17	Other capital movements .....	+ 93	- 103	- 48	+ 129
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 436</b>	<b>+ 216</b>	<b>+ 344</b>	<b>+ 427</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-  
B 11) actions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1957 are subject to revision.

1957			1958		Annual Totals			Four Quarters ending June 30, 1958	
II	III	IV	I	II	1955	1956	1957		
(millions of dollars)									
1,215	1,308	1,284	1,087	1,277	4,332	4,837	4,909	4,956	A
31	27	50	44	39	155	150	147	160	1
76	197	59	32	76	328	337	363	364	3
37	31	56	29	34	160	142	149	150	4
114	113	100	94	98	398	457	431	405	5
42	34	23	18	30	86	99	124	105	6
106	91	87	84	92	391	442	395	354	7
									11
1,621	1,801	1,659	1,388	1,646	5,850	6,464	6,518	6,494	12
1,518	1,350	1,292	1,153	1,356	4,543	5,565	5,488	5,151	B
142	178	105	101	145	449	498	525	529	1
142	141	181	126	130	483	523	593	578	4
143	135	119	94	116	415	502	506	464	5
30	32	33	25	29	105	115	122	119	6
8	7	17	11	11	24	30	37	46	7
166	153	162	167	170	529	597	647	652	9
									11
2,149	1,996	1,909	1,677	1,957	6,548	7,830	7,918	7,539	12
- 303	- 42	- 8	- 66	- 79	- 211	- 728	- 579	- 195	
- 217	- 146	- 225	- 212	- 221	- 463	- 608	- 784	- 804	
- 8	- 7	- 17	- 11	- 11	- 24	- 30	- 37	- 46	
- 528	- 195	- 250	- 289	- 311	- 698	-1,366	-1,400	-1,045	C
+ 163	+ 137	+ 129	+ 85	+ 90	+ 417	+ 583	+ 520	+ 441	D
- 22	- 18	- 5	- 10	- 5	- 74	- 104	- 65	- 38	1
- 3	- 15	- 15	- 1	- 11	- 165	+ 11	- 43	- 42	2
+ 47	+ 43	+ 7	- 3	+ 6	+ 138	+ 188	+ 137	+ 53	3a
+ 296	+ 142	+ 88	+ 166	+ 295	+ 166	+ 667	+ 790	+ 691	3b
- 23	- 45	- 28	- 16	- 26	- 184	- 141	- 137	- 115	4
+ 19	+ 17	+ 11	+ 10	+ 3	+ 25	+ 20	+ 37	+ 41	5
- 4	- 8	- 7	- 3	- 6	- 48	- 18	- 23	- 24	6
+ 2	+ 1	+ 1	+ 1	+ 2	+ 17	-	+ 5	+ 5	7
-	-	-	- 16	- 8	-	-	-	- 24	8
+ 19	+ 7	+ 17	+ 7	+ 17	+ 69	+ 69	+ 50	+ 48	9
- 26	+ 7	+ 18	- 17	+ 39	+ 89	- 24	- 34	+ 47	10,11
- 22	+ 53	+ 61	- 39	- 53	+ 44	- 33	+ 105	+ 22	14
+ 82	- 126	- 27	+ 125	- 32	+ 204	+ 148	+ 58	- 60	16
									17
+ 528	+ 195	+ 250	+ 289	+ 311	+ 698	+1,366	+1,400	+1,045	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item, representing unrecorded capital movements and errors and omissions throughout the accounts.

Summary of Capital Movements, 1957 and 1958

(millions of dollars)

	1957		1958		1957		1958
	III	IV	I	II	First half	Second half	First half
Direct investment in Canada	+ 137	+ 129	+ 85	+ 90	+ 254	+ 266	+ 175
Direct investment abroad	- 18	- 5	- 10	- 5	- 42	- 23	- 15
Canadian securities							
Trade in outstanding bonds	- 15	- 15	- 1	- 11	- 13	- 30	- 12
Trade in outstanding stocks	+ 43	+ 7	- 3	+ 6	+ 87	+ 50	+ 3
New issues	+ 142	+ 88	+ 166	+ 295	+ 560	+ 230	+ 461
Retirements	- 45	- 28	- 16	- 26	- 64	- 73	- 42
Foreign securities	+ 10	+ 5	+ 8	- 1	+ 4	+ 15	+ 7
Official loan repayments (net)	+ 7	+ 17	- 9	+ 9	+ 26	+ 24	-
Canadian dollar holdings of foreigners	+ 7	+ 18	- 17	+ 39	- 59	+ 25	+ 22
Official holdings of gold and foreign exchange (increase, -)	+ 53	+ 61	- 39	- 53	- 9	+ 114	- 92
Other capital movements	- 126	- 27	+ 125	- 32	+ 211	- 153	+ 93
Net capital movement financing current account	+ 195	+ 250	+ 289	+ 311	+ 955	+ 445	+ 600



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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER, 1958

In the third quarter of 1958 there was a deficit from current transactions in goods and services with other countries of \$187 million which compares with \$195 million in the same quarter of 1957. This was a much smaller decline than occurred in the first two quarters of the year. In the three quarters of 1958 the deficit has totalled \$795 million compared with \$1,150 million in the corresponding period of 1957. In both periods this year similar underlying changes have occurred.

The reductions in the deficits from last year have been entirely due to the changes in the merchandise trade balance. Deficits arising from non-merchandise transactions have continued to increase and accounted for more than four-fifths of the above deficit in the nine months of 1958, rising to \$665 million from \$579 million in the same months of 1957. The rise in the deficit from this group of transactions in the third quarter was greater than in earlier quarters this year. Some of the factors making for a wider imbalance happened to be more accentuated in the recent quarter but generally mark the same kind of growth as has been underway over a longer period. There have been larger net payments on account of official contributions, travel, migrants' funds, and other current transactions which have more than offset reduced deficits on income and freight and shipping account and larger receipts from gold. The reduced deficit on income account conceals a rising amount of interest payments on bonds held abroad and a maintenance of dividends paid by public companies. Dividend transfers by subsidiaries to parent companies have been more variable but have remained generally high in comparison with several years ago.

### Reduced balance of merchandise trade

A variety of economic influences operating in different directions have contributed to the marked change in the merchandise balance. The emergence in the third quarter of a small surplus of \$10 million in the merchandise account compared with an import balance of \$42 million in the same quarter last year, after adjustment for use in the balance of payments, marks a continuation of recent trends in a quarter of the year when imbalance in merchandise trade has usually been lighter than in the first half of the year. The principal factor working in this direction continued to be the larger decline in imports than in exports evident during the past year. Compared with the third quarter last year imports were down this year 11 per cent while with exports there was a drop of 7 per cent. In the nine months of 1958 the import balance on merchandise account was \$130 million compared with \$571 million in the same period last year.

A leading influence reducing imports was again the changed form this year of investment in Canada with less emphasis on the business forms of investment which lead to imports of machinery, equipment, and metal materials. There were consequently declines in these groups of commodities. Imports of petroleum and products and other fuels have also been notably lower. At the same time high levels of consumption in Canada have maintained the volume of many imports, particularly of consumer goods and materials used in their production.

Prepared in the Balance of Payments Section, International Trade Division.

503-509-98

Canadian exports of merchandise in the third quarter of 1958 were some 7 per cent below the corresponding quarter in 1957. This contrasts with the first half of the year when the total was slightly higher than in 1957 partly because of substantially higher wheat shipments in the first half of this year. One reason for this difference in trend was the much lower level of exports of iron ore in the third quarter this year, a period when shipments are normally heavily concentrated. But trends in commodities continued to be very mixed. Drops in many commodities were partially offset by substantially larger shipments this year of a few exports like uranium, cattle, aircraft, farm implements and natural gas.

In the first three quarters of 1958 the pattern of exports was similar in many respects to that described above for the third quarter except that the decline amounted to only a little more than 1 per cent. Offsetting movements were widespread, the chief gains being in wheat and flour, other grains, cattle, meat and fish, agricultural implements, uranium, gas, and aircraft. A few important commodities were well maintained in total, including lumber, alcoholic beverages, aluminum and nickel. Declines were numerous but were most notable in such commodities as seeds, pulp and paper, iron ore, and ferro-alloys and other steel, copper, lead and zinc, petroleum, asbestos, fertilizers and ships.

Gains to United Kingdom, Rest of the Sterling Area, and OEEC countries were offset by a small reduction in the total to the United States and to other countries. Further comments on geographical distribution appear below under Transactions by Areas.

#### Continuing rise in large deficit from services and other non-merchandise items

More than four-fifths of the current account deficit in the first nine months of 1958 was represented by imbalances in non-merchandise transactions between Canada and other countries, including interest and dividend payments, tourist expenditures, exchanges of business and government services, and numerous other items. The importance of such transactions was brought into sharp focus in the third quarter: net payments abroad of \$197 million relating to a variety of non-merchandise items exceeded the entire deficit for the quarter by \$10 million. Although this level of payments was seasonally lower than in the second quarter, it was 30 per cent higher than that of the same quarter last year, and rose at double the rate recorded for the nine-month period as a whole.

Declining receipts from three major accounts contributed to the 15 per cent higher non-merchandise deficit over the nine-month period. Earnings from freight and shipping dropped sharply owing to the lower volume of exports, to reductions in ocean shipping rates, and to the fewer ships operated by Canadians. The fall in exports of such bulk commodities as petroleum and iron ore contributed significantly to these reduced earnings. Funds brought into Canada by immigrants declined as a result of a more than 50 per cent drop in the number of arrivals. In addition, there was a reduction in current expenditures in Canada on defence installations by the United States Government.

The nine-month deficit on non-merchandise accounts was also heightened as a result of increased payments abroad in four main categories. The level of foreign expenditures by Canadian tourists rose moderately in the first two quarters and more sharply in the third quarter. Official contributions to other countries by the Canadian Government were considerably higher than in each of the same quarters in 1957; the Colombo Plan, shipments of wheat to India and Pakistan, and of flour to the Middle East were the most prominent of these. A higher level of withdrawals of funds by emigrants also prevailed, largely as a result of increases in the movement of individuals and families from this country. There were increased payments to the Canadian Government for logistic support of Canadian armed forces abroad. Lastly, some non-recurring government payments overseas were of considerable importance in the first half of the year.

The full effect on the nine-months' deficit of the foregoing developments was offset in part by a moderate net reduction in the aggregate of interest and dividend payments abroad. Although there was a marked increase in the former owing to the large volume of new issues of provincial, municipal, and corporation debt sold in the United States in 1957, dividend transfers by wholly-owned Canadian subsidiaries of United States firms declined substantially. This was in contrast to dividend payments to the United States by publicly-owned companies, which were maintained at last year's level. Reductions in payments on freight and shipping account accompanied the lower levels of imports during each of the three quarters, and were accentuated by declines in some commodities for which transportation costs are high. Increased receipts from gold production available for export should also be mentioned as a factor tending to offset the deficit for the nine-month period, although the lower levels of output in the second and third quarters of 1957 were brought about by refinery alterations. For 1958 as a whole, the total for this item is not likely to differ as greatly from the 1957 amount as the trend in the first three quarters.

#### Transactions by areas

A substantially reduced current deficit with the United States from \$1,245 million last year to \$860 million this year continued to be the principal factor contributing to the reduced deficit with all countries in the first nine months. This has been the case in each quarter this year following a trend which became accentuated in the final quarter of 1957. In the nine months there has been a reduction in the surplus with overseas countries from \$95 million last year to \$65 million this year. A smaller surplus in the first quarter, along with a deficit in the third, more than offset a rise in the second quarter surplus.



The sharp contraction in the import balance with the United States has been responsible for the reduced current deficit in the nine months. A drop in imports of 15 per cent was mainly responsible for the virtual halving of the import balance from \$830 million to \$425 million. Commodity exports to the United States only fell off 2 per cent, being largely maintained by offsetting trends in many leading commodities. Reductions in such basic exports to that market as newsprint, petroleum, iron ore, nickel, copper, and other non-ferrous metals more than offset large gains in uranium, cattle and meat. In contrast, the deficit of \$435 million with the United States from non-merchandise transactions this year was \$20 million higher than in the same nine months of 1957, being maintained by continued large deficits in most accounts with that country.

Current transactions with the United Kingdom led to a surplus of \$63 million this year compared with \$106 million in the same part of last year. The balance on merchandise trade was slightly less than last year, the result of a small rise in imports and a maintenance of exports in the trade totals when adjusted for balance of payments purposes. Again there were mixed trends with larger shipments of grains, uranium, nickel and chemicals offsetting reductions in other metals and industrial materials. Important among import trends with the United Kingdom were larger imports of automobiles and aircraft. The deficit with the United Kingdom from non-merchandise transactions rose from \$59 million last year to \$95 million this year. Contributing to the change were some non-recurring settlements included in other current payments, and much smaller transfers from immigrants.

With countries other than the United States and United Kingdom the change in net balance was not large, but this resulted from many divergent trends. This year a surplus on merchandise account of \$137 million was a little larger than the deficit of \$135 million from non-merchandise transactions; whereas last year the merchandise balance was less than the deficit from other items. Most of the change on merchandise account came from a reduction in imports from various areas and included petroleum and other primary commodities. In the case of exports gains to the Rest of the Sterling Area and OEEC countries were mainly offset by reduced exports to Japan and Latin America. A gain in exports to the Rest of the Sterling Area includes larger shipments of Canadian financed wheat to countries in Asia and unusual shipments of wheat to Australia. With OEEC countries a gain reflects particularly larger exports to Germany, Belgium, The Netherlands, Norway, and Switzerland offsetting declines to France and Italy. Larger deliveries of military aircraft to Belgium and Germany and larger shipments of wheat to several markets accounted for most of the rise. With other countries the principal source of the decline was a drop in exports to Japan, particularly in some industrial materials with also lower exports to some countries in Latin America including the absence this year of large exports of used ships to Panama. A larger deficit from other current transactions includes some non-recurring payments and larger official contributions including the financing of contributions of wheat and other commodities to Asia, and larger payments on travel account.

#### Summary of Current Transactions with the

#### United States, United Kingdom and Other Countries, 1957 and 1958

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1957	1958	1957	1958	1957	1958	1957	1958
<u>Third quarter</u>								
Merchandise exports (adjusted)	1,308	1,218	794	757	212	192	302	269
Merchandise imports (adjusted)	1,350	1,208	919	798	132	127	299	283
Balance on merchandise trade	- 42	+ 10	- 125	- 41	+ 80	+ 65	+ 3	- 14
Balance on non-merchandise trade	- 153	- 197	- 87	- 106	- 27	- 39	- 39	- 52
Current account balance	- 195	- 187	- 212	- 147	+ 53	+ 26	- 36	- 66
<u>First nine months</u>								
Merchandise exports (adjusted)	3,625	3,583	2,173	2,127	555	555	897	901
Merchandise imports (adjusted)	4,196	3,713	3,003	2,552	390	397	803	764
Balance on merchandise trade	- 571	- 130	- 830	- 425	+ 165	+ 158	+ 94	+ 137
Balance on non-merchandise trade	- 579	- 665	- 415	- 435	- 59	- 95	- 105	- 135
Current account balance	- 1,150	- 795	- 1,245	- 860	+ 106	+ 63	- 11	+ 2



### Capital movements

The net inflow of capital to Canada in the long-term forms shown separately in the quarterly estimates totalled \$238 million in the third quarter, or some 25 per cent more than the current account deficit to be financed in this period. Similar selected imports of capital also exceeded the current account for the first nine months of this year, a condition which has not existed in the intervening years since 1954.

About three-quarters of the inflows in these forms during the third quarter came from the United States; this was about the same proportion as applied to 1957 as a whole. But because of the very small net inflows which occurred from overseas countries in the first half of 1958, the proportion for the United States for the first nine months of the year approached 85 per cent.

The net inflow of capital for direct investment in foreign-controlled concerns is placed at \$90 million during the third quarter, compared with \$105 million in the second quarter and \$137 million in the corresponding period of 1957. Inflows for resource development although down on balance relatively more than other elements, contributed more than half the total. In other categories there were some substantial inflows which represented refinancing and appeared to have little direct relationship to current investment activity, and there were also increased capital outflows which presumably were made possible by some reductions in working capital or from internal savings such as capital consumption allowances not currently required to finance new capital formation. Over the nine months of the year, the net inflow was \$285 million compared with \$391 million for the same period of 1957. The industrial division of direct investment flows appears to have remained relatively unchanged with the exception of mining where some major projects were leading to larger inflows in 1958 than in 1957.

For the first time since 1950 there was an inward movement of capital from Canadian direct investments abroad. This reflects in the main the disposal by Canadians of substantial interests acquired abroad several years ago. The net inflow in the third quarter is placed at \$15 million which is sufficient to offset the outflows of the first six months. The absence of any net movement over the nine months is in sharp contrast to the outflow of \$60 million recorded for the corresponding period of 1957.

Transactions in Canadian portfolio securities led to net capital inflows of \$117 million in the third quarter of 1958 and of \$515 million for nine months. The corresponding figures for 1957 were \$125 million and \$695 million respectively. Comparing the third quarters of the two years, \$15 million repatriation of outstanding bonds and debentures which occurred in 1957 was replaced by net sales of \$1 million in 1958. Trade in outstanding equities, on the other hand, led to a smaller inflow, as the net sales balance fell from \$43 million to \$35 million. New issues sold to non-residents produced \$89 million in contrast to \$142 million in 1957. The third quarter is normally one in which new underwriting activity is small, and in 1958 this tendency was emphasized by the preoccupation with the Government Conversion Loan operation. There were in fact no new offerings outside Canada during the period, and the new issues represented either deliveries on earlier offerings or participation by non-residents in offerings in the Canadian market. Retirements of foreign-held Canadian securities were also down sharply in the third quarter of 1958 as compared with 1957, from \$45 million to \$8 million. This reflected mainly the retirements of a substantial railway issue in 1957.

The decline of \$180 million in the net inflow from transactions in Canadian securities in the nine months reflected drops of \$165 million in sales of new issues to non-residents and \$79 million in net sales of outstanding Canadian stocks. On the other hand, outflows for net repurchases of outstanding Canadian bonds and debentures fell by \$17 million and net retirements of foreign-held Canadian securities by \$47 million. More complete detail on these security transactions will be found in the monthly reports entitled "Sales and Purchases of Securities between Canada and other Countries".

Transactions in foreign portfolio securities led a net capital inflow of \$9 million in the quarter and \$17 million in the nine months of 1958. These figures compared with \$10 million and \$14 million respectively in 1957.

There were no further advances of Government of Canada credits during the third quarter, and the nine months total was accordingly unchanged at \$24 million. No credits were extended during 1957. Repayments were limited to the regular quarterly receipt of \$7.5 million principal on the interest-free loan of 1942 to the United Kingdom. Total repayments in the nine months amounted to \$31 million in 1958 and \$33 million in 1957.

A striking increase of \$88 million occurred in Canadian dollar holdings of foreigners. With the exception of the third quarter of 1950 when these holdings increased by \$131 million this is the largest quarterly change which has been recorded. But in contrast to 1950 when the balances were clearly related to the expectation of a change in the exchange rate, it is known that a substantial part of the present accumulation is intended to provide for future expenditures in Canada.

A capital inflow of \$32 million occurred from the exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account, during the third quarter. This inflow followed outflows of \$39 million and \$52 million respectively in the first and second quarters. The net outflow of \$59 million in the nine months compared with a net inflow of \$44 million in the corresponding period of 1957. Official holdings of gold and United States dollars at the end of September 1958, expressed in terms of United States currency, amounted to \$1,888.2 million.

Other capital movements resulted, on balance, in an outflow of \$171 million in the third quarter. These movements have given rise to outflows in the third quarter of each year since 1950, but the amount in 1958 appears to have been larger than usual. Private and banking holdings of exchange were increased during the quarter, and there were withdrawals of funds by insurance companies. And it seems likely that a significant reduction may have occurred in Canada's short-term payables as financing pressures moderated.

The Canadian dollar weakened on the world exchange market during the third quarter. The quotation for the United States dollar in Canada rose from 95.91 cents at the beginning to 97.56 cents at the end. The high during the third quarter was 98.28 cents, and the low was 95.84 cents. The increase during the quarter was just slightly more than the fall during the second quarter, and the close of 97.56 cents compared with 97.44 cents at the end of March. The noon average through the third quarter was 96.70 cents which compared with 96.64 cents in the second.

Summary of Capital Movements, 1957 and 1958

(millions of dollars)

	1 9 5 7		1 9 5 8			1 9 5 7	1 9 5 8
	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	First nine months	First nine months
Direct investment in Canada	+ 137	+ 129	+ 90	+ 105	+ 90	+ 391	+ 285
Direct investment abroad	- 18	- 5	- 10	- 5	+ 15	- 60	-
Canadian securities:							
Trade in outstanding bonds	- 15	- 15	- 1	- 11	+ 1	- 28	- 11
Trade in outstanding stocks	+ 43	+ 7	+ 3	+ 13	+ 35	+ 130	+ 51
New issues	+ 142	+ 88	+ 161	+ 287	+ 89	+ 702	+ 537
Retirements	- 45	- 28	- 16	- 38	- 8	- 109	- 62
Foreign securities	+ 10	+ 5	+ 8	-	+ 9	+ 14	+ 17
Official loan repayments (net)	+ 7	+ 17	- 9	+ 9	+ 7	+ 33	+ 7
Canadian dollar holdings of foreigners	+ 7	+ 18	- 17	+ 39	+ 88	- 52	+ 110
Official holdings of gold and foreign exchange (increase, -)	+ 53	+ 61	- 39	- 52	+ 32	+ 44	- 59
Other capital movements	- 126	- 27	+ 115	- 24	- 171	+ 85	- 80
Net capital movement financing current account	+ 195	+ 250	+ 285	+ 323	+ 187	+ 1,150	+ 795

Note: Data for 1958 are preliminary and

		1956		1957	
		III	IV	I	II
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,247	1,277	1,102	1,215
3	Gold production available for export .....	38	35	39	31
4	Travel expenditures .....	191	55	31	76
5	Interest and dividends .....	25	41	25	37
6	Freight and shipping .....	120	120	104	114
7	Inheritances and immigrants' funds .....	26	28	25	42
11	All other current receipts .....	110	124	111	106
12	<b>Total Current Receipts</b> .....	<b>1,757</b>	<b>1,680</b>	<b>1,437</b>	<b>1,621</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,351	1,427	1,328	1,518
4	Travel expenditures .....	169	103	100	142
5	Interest and dividends .....	128	170	129	142
6	Freight and shipping .....	132	137	109	143
7	Inheritances and emigrants' funds .....	31	31	27	30
9	Official contributions .....	5	6	5	8
11	All other current payments .....	157	150	166	166
12	<b>Total Current Payments</b> .....	<b>1,973</b>	<b>2,024</b>	<b>1,864</b>	<b>2,149</b>
	Balance on Merchandise Trade .....	- 104	- 150	- 226	- 303
	Balance on Other Transactions, excluding B 9 .....	- 107	- 188	- 196	- 217
	Official Contributions .....	- 5	- 6	- 5	- 8
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 216</b>	<b>- 344</b>	<b>- 427</b>	<b>- 528</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 116	+ 181	+ 91	+ 163
2	Direct investment abroad .....	- 23	- 11	- 20	- 22
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 8	- 13	- 10	- 3
3b	Trade in outstanding common and preference stocks .....	+ 76	+ 29	+ 40	+ 47
4	New issues .....	+ 179	+ 200	+ 264	+ 296
5	Retirements .....	- 25	- 22	- 41	- 23
	Foreign Securities				
6	Trade in outstanding issues .....	+ 8	+ 22	- 10	+ 19
7	New issues .....	- 4	- 6	- 4	- 4
8	Retirements .....	-	-	+ 1	+ 2
	Loans by Government of Canada				
9	Drawings .....	-	-	-	-
10,11	Repayments .....	+ 7	+ 34	+ 7	+ 19
14	Change in Canadian dollar holdings of foreigners .....	- 2	+ 5	- 33	- 26
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 5	- 27	+ 13	- 22
17	Other capital movements .....	- 103	- 48	+ 129	+ 82
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 216</b>	<b>+ 344</b>	<b>+ 427</b>	<b>+ 528</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-  
B 11) actions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

data for 1957 are subject to revision.

1957		1958			Annual Totals		Four Quarters ending Sept. 30, 1958		
III	IV	I	II	III	1955	1956	1957		
(millions of dollars)									
1,308	1,284	1,088	1,277	1,218	4,332	4,837	4,909	4,867	A
27	50	44	39	39	155	150	147	172	1
197	59	32	76	190	328	337	363	357	3
31	56	29	34	29	160	142	149	148	4
113	100	94	98	94	398	457	431	386	5
34	23	18	30	26	86	99	124	97	6
91	87	84	90	88	391	442	395	349	7
									11
1,801	1,659	1,389	1,644	1,684	5,850	6,464	6,518	6,376	12
1,350	1,292	1,151	1,354	1,208	4,543	5,565	5,488	5,005	B
178	105	101	145	190	449	498	525	541	1
141	181	126	130	142	483	523	593	579	4
135	119	94	116	119	415	502	506	448	5
32	33	25	33	38	105	115	122	129	6
7	17	11	16	12	24	30	37	56	7
153	162	166	173	162	529	597	647	663	9
									11
1,996	1,909	1,674	1,967	1,871	6,548	7,830	7,918	7,421	12
- 42	- 8	- 63	- 77	+ 10	- 211	- 728	- 579	- 138	
- 146	- 225	- 211	- 230	- 185	- 463	- 608	- 784	- 851	
- 7	- 17	- 11	- 16	- 12	- 24	- 30	- 37	- 56	
- 195	- 250	- 285	- 323	- 187	- 698	-1,366	-1,400	-1,045	C
									D
+ 137	+ 129	+ 90	+ 105	+ 90	+ 417	+ 583	+ 520	+ 414	1
- 18	- 5	- 10	- 5	+ 15	- 74	- 104	- 65	- 5	2
- 15	- 15	- 1	- 11	+ 1	- 165	+ 11	- 43	- 26	3a
+ 43	+ 7	+ 3	+ 13	+ 35	+ 138	+ 188	+ 137	+ 58	3b
+ 142	+ 88	+ 161	+ 287	+ 89	+ 166	+ 667	+ 790	+ 625	4
- 45	- 28	- 16	- 38	- 8	- 184	- 141	- 137	- 90	5
+ 17	+ 11	+ 10	+ 5	+ 9	+ 25	+ 20	+ 37	+ 35	6
- 8	- 7	- 3	- 7	- 1	- 48	- 18	- 23	- 18	7
+ 1	+ 1	+ 1	+ 2	+ 1	+ 17	-	+ 5	+ 5	8
-	-	- 16	- 8	-	-	-	-	- 24	9
+ 7	+ 17	+ 7	+ 17	+ 7	+ 69	+ 69	+ 50	+ 48	10,11
+ 7	+ 18	- 17	+ 39	+ 88	+ 89	- 24	- 34	+ 128	14
+ 53	+ 61	- 39	- 52	+ 32	+ 44	- 33	+ 105	+ 2	16
- 126	- 27	+ 115	- 24	- 171	+ 204	+ 148	+ 58	- 107	17
+ 195	+ 250	+ 285	+ 323	+ 187	+ 698	+1,366	+1,400	+1,045	E

## NOTES:

0 A minus sign indicates an outflow of capital from Canada.

01,2 Exclusive of undistributed profits.

017 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.





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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1958, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1958

Canada's deficit from current transactions in goods and services with other countries was reduced to \$1,112 million in 1958 from \$1,400 million in 1957. This current deficit in 1958 was still larger than in any year before 1956, even though the import balance from merchandise trade was sharply reduced by \$405 million to \$174 million in the year. An excess of expenditures over receipts on account of non-merchandise transactions was responsible for over four-fifths of the deficit in 1958. This deficit of \$938 million from "invisible" transactions grew by \$117 million in the year and has more than doubled in four years. Almost half of the deficit from "invisibles" originated in income payments on foreign investments in Canada and large amounts of the remainder were for travel, transportation, and business services and personal remittances.

In each of the first three quarters the total current deficit from all transactions was less than in the corresponding quarters of 1957 because of declines in the balance of merchandise imports. But by the fourth quarter the latter balance exceeded the deficit from merchandise trade in the fourth quarter of 1957 and in each quarter of 1958 the deficit from non-merchandise transactions was higher than in 1957. The rising trend in this group of transactions in 1958 was mainly due to larger official contributions by the Canadian government, larger Canadian expenditures on travel abroad, reductions in inflows of immigrants' funds, and in current expenditures by the United States government on defence installations in Canada. Maintenance of a high total of interest and dividend payments was partly offset by the resumption of receipts of interest from the United Kingdom on the post-war loan.

Among leading factors in the economic background influencing the shape of Canada's international accounts in 1958 have been the changing character of investment in Canada and the altered rate of general growth. While business investment involving many import expenditures has been reduced, investment outlays by public bodies have risen and levels of business inventories also fluctuated in a manner to reduce imports in most of 1958. At the same time higher levels of personal consumption and government expenditures and the maintenance of commodity exports have continued to contribute to high levels of production and to many types of Canadian expenditure abroad. Some of the effects of the high rate of growth of earlier years have shown themselves in new Canadian export capacity and in "invisible" items leading to larger external outlays for such purposes as interest and dividend payments and travel and business services. Related to the higher level of income payments is the mounting size of Canada's net international indebtedness which has more than doubled in half a decade resulting from the continued increase in non-resident capital invested in Canada.

The inflow of capital in such forms as direct investment, portfolio security transactions, and official loans, was adequate to finance practically the entire deficit on current account in 1958. In 1957 the corresponding inflows were equivalent to 91 per cent of the deficit.

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Prepared in the Balance of Payments Section, International Trade Division.

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A revealing feature of the capital account in 1958 was the decline in inflows involving investment in Canadian businesses. The net movement of capital into foreign-controlled concerns in Canada fell by \$120 million, and the net movement for the acquisition of securities of other Canadian companies fell by \$291 million. But despite this striking contraction, the inflows into these Canadian business investments in 1958 amounted to almost \$700 million, and the growth of non-resident investment in Canadian corporations was even larger because of the reduced but nevertheless substantial amounts of earnings ploughed back into these firms. Associated with the decline in the rate of business investment was substantially increased activity on government account, reflected in the capital account of the balance of payments by net sales of securities of Canadian governments which totalled \$352 million, an increase of nearly 125 per cent over 1957.

As a result of these capital movements and of other factors Canada's net external long-term liabilities rose from \$17.1 billion at the beginning of the year to about \$18 1/2 billion at the end of 1958. Canada's net international indebtedness, exclusive of short-term commercial liabilities, rose during the same period from \$11.0 billion to well over \$12 billion. Despite the reduced pressures within the Canadian economy the use of foreign resources as a proportion of net capital formation in 1958 was only slightly smaller than the one-third contributed in 1956-1957, and was much higher than for the period 1950-1955. Direct foreign financing of net capital formation which exceeded 40 per cent in the years 1956-1957 was still about one-third under the conditions prevailing in 1958.

#### Sharp drop in deficit from commodity trade

For the year 1958 as a whole the import balance on merchandise trade was less than one-third that in 1957 due to the much larger drop in imports than in exports. This change occurred in each of the first three quarters of 1958 following declines which had occurred in the latter part of 1957 in both imports and accompanying import balances. This trend altered, however, in the final quarter of 1958 as imports rose above the corresponding quarter of the previous year for the first time in over a year. In the fourth quarter 1958 the import balance was \$46 million compared with \$8 million in the same quarter of 1957. For the whole year the import balance of \$174 million in 1958 (adjusted for balance of payments purposes) compares with \$579 million in 1957, \$728 million in 1956, and \$211 million in 1955.

Prices of both exports and imports maintained in general slightly rising trends during the last half of 1958, following the somewhat irregular patterns of the first six months. For the year as a whole, import prices advanced a little less than 1 per cent, and export prices declined by an even smaller fraction. This led to an almost negligible deterioration in the terms of trade. Among particular groups of exports, higher prices for wheat and other grains, fresh beef and veal, and iron and steel manufactures other than farm machinery were more than offset by somewhat lower prices for most wood products and paper and significant declines in the prices of some non-ferrous metals and products. Among imports, wood and paper products, and iron and steel manufactures contributed most to the small average price gain for the year.

Imports in 1958 remained much greater in both value and volume than any year before 1956 despite the sharp fall from the peak levels reached in 1956 and early 1957. The value in 1958 was still some 11% greater than in 1955, although 8% less than in 1957, and in comparison with early post-war years the value of imports in 1958 was about double the values a decade earlier.

Declines between 1958 and 1957 were most heavily concentrated in classes of imports which had risen most sharply in the period of peak levels. This period generally coincided with that during which large industrial and resource development was also most accentuated, and commodities for which demand was heaviest tended to be those in broad categories used in development such as investment goods and related industrial materials. Among the best examples of such commodities were machinery and equipment and primary steel and other rolling mill products. Consequently the sharpest increase occurring earlier had been in metal products and it was the same groups which accounted for some three-quarters of the decline in 1958. Another large part of the decline occurred in fuels with substantially reduced imports of both coal and petroleum products. In contrast, imports of many consumer goods were comparatively well maintained, although some materials used in their production showed appreciable declines. A general tendency of business firms to draw down inventories during the first part of 1958 was also a factor contributing to reduced imports of many commodities.

The increase which occurred in the final quarter of the year included imports from the United States in contrast to consistent declines earlier in the year. Some of this increase appeared in steel during the course of an industrial dispute in Canada.

In 1958 the total value of Canadian exports was maintained at close to the record level of 1957. This was the result, however, of a variety of quite opposite trends. A relatively small number of cases of substantial increases were enough to largely cancel more numerous instances of declines. A pattern of mixed trends had appeared in the previous year but declines became more numerous in 1958, as many export industries operated at less than capacity.

Among major commodities the largest increases in 1958 were among new exports still undergoing rapid growth of which uranium and natural gas to the United States are good examples, or among commodities subject to special situations such as wheat to Asia, cattle and beef to the United States, and military aircraft to Germany and Belgium.

Decreases occurred in many of the prominent traditional export staples including pulp and paper and most non-ferrous metals as well as in some of the newer industrial materials which have more recently become major exports. Examples of the latter in which declines were particularly sharp were petroleum and iron ore.

Changes in the direction of trade in 1958 were relatively not very great, although somewhat more than the slightly reduced total value. While exports to both the United Kingdom and the Rest of the Sterling Area were moderately higher in 1958 the opposite was the case with exports to the United States and all other foreign countries.

Summary of Current Transactions with the United States,

United Kingdom, and Other Countries, 1957 and 1958

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1957	1958	1957	1958	1957	1958	1957	1958
<u>Calendar Year</u>								
Merchandise exports (adjusted)	4,909	4,890	2,931	2,909	749	768	1,229	1,213
Merchandise imports (adjusted)	5,488	5,064	3,878	3,443	520	539	1,090	1,082
Balance on merchandise trade	- 579	- 174	- 947	- 534	+ 229	+ 229	+ 139	+ 131
Other current receipts	1,609	1,490	1,131	1,057	206	198	272	235
Other current payments	2,430	2,428	1,735	1,727	293	297	402	404
Balance on non-merchandise trade	- 821	- 938	- 604	- 670	- 87	- 99	- 130	- 169
Current account balance	-1,400	-1,112	-1,551	-1,204	+ 142	+ 130	+ 9	- 38
<u>Fourth Quarter</u>								
Merchandise exports (adjusted)	1,284	1,307	758	782	194	213	332	312
Merchandise imports (adjusted)	1,292	1,353	875	891	130	142	287	320
Balance on merchandise trade	- 8	- 46	- 117	- 109	+ 64	+ 71	+ 45	- 8
Balance on non-merchandise trade	- 242	- 258	- 189	- 223	- 28	- 2	- 25	- 33
Current account balance	- 250	- 304	- 306	- 332	+ 36	+ 69	+ 20	- 41



### New record in deficit from services and other non-merchandise items

International current account transactions other than commodity trade in 1958 gave rise to an excess of payments over receipts of \$938 million. This record deficit was \$117 million greater than in the previous year, an increase of 14 per cent. While this rate of increase in imbalance was less than in 1956 and 1957 it persisted throughout each quarter and was in sharp contrast to the large reduction in the commodity trade deficit. The influence of these transactions on the current account deficit grew significantly in 1958, although there was very little change from last year in the ratios of this trade in "invisibles" to total receipts and payments. For the fourth quarter, the deficit from non-merchandise transactions was \$258 million, compared with \$242 million in the same period in 1957.

The analysis which follows shows that the increase of \$117 million in the non-commodity trade deficit in 1958 was brought about by higher net payments abroad on each of the three important items representing international travel, migrants' funds (including inheritances) and the group of miscellaneous transfers referred to as "all other" current transactions in the detailed table in this bulletin. These changes more than offset reduced deficits on account of interest and dividends and freight and shipping transactions and a larger value of gold production available for export.

International transfers of investment income, which in recent years have been the source of well over half the current account deficit outside of commodity trade, contributed slightly less to the deficit than in 1957. The estimate of net payments of \$433 million in 1958 compared with \$444 million in 1957 provides the first interruption of a trend of imbalance that had been rising since 1953. It was brought about mainly by higher total receipts of interest with the resumption of interest payments by the United Kingdom on the post-war loan, since no net change took place in the level of total payments. The rise in interest payments related to the heavy Canadian bond financing in the United States of 1957 and subsequently was offset by a decline in dividend payments. The latter was probably associated with the generally lower earnings of 1957 and early 1958. There was, however, a sharp increase in the final quarter of 1958 in dividend transfers by subsidiaries to parent companies. Dividend payments of publicly-owned companies, which usually remain more stable than those related to direct investment, were on the other hand slightly lower in the fourth quarter and over the year as a whole. This partly reflects the absence in 1958 of some year-end extras that had been a common practice of a number of companies during the long period of boom conditions.

Much of the favourable development in investment income receipts during 1958 can be attributed to the resumption by the United Kingdom of interest payments of \$23 million on the Canadian loan of 1946, since the return on various holdings of short-term United States securities was adversely affected by the very pronounced fall in yields in the first half of the year. Dividend receipts were below 1957 levels, largely because of a reduction in this form of income from Canadian investment in secondary industries in other Commonwealth countries.

International freight and shipping transactions held to their customary importance as a source of receipts and payments, although net payments were lower. A fall in both inward and outward transfers of earnings accompanied the lower levels of external trade in commodities with relatively high transportation costs. The drop in receipts was influenced in addition by further sales of Canadian vessels following large sales in the previous year. The lower level of payments on transportation account relates mainly to the 11 per cent drop in imports from the United States and to the softening of ocean shipping rates, there being no significant net change from 1957 in imports from overseas countries.

On travel account the deficit rose as receipts were lower while payments continued to rise. The fall in total receipts from tourists was due to some reduction in expenditures in Canada of American visitors. While there was only a minor decline in their numbers, their lower level of spending was sufficient to offset the favourable effect of an increase in visitors from the United Kingdom and other countries. The larger overall deficit on travel account was due much more, however, to higher total expenditures abroad by Canadians on holiday. Overseas travel attracted about 10 per cent more Canadians than in 1957, a lower rate of increase than in previous years. And although recorded visits to the United States were practically unchanged from 1957 levels, there was a moderate rise in Canadian expenditures there.

There were marked changes in the patterns of both immigration and emigration during 1958, which on balance turned the small surplus of receipts in the previous year into a deficit of \$40 million. Immigration, which had been swollen by the arrival of Hungarian refugees and other heavy movements to a peak of over 280,000 in 1957, dropped to less than half this number with changing conditions. On the other hand there were some increases in the emigration of Canadian residents, with the movement to the United Kingdom rising by about one-third over 1957.



Two important components of the larger deficit in 1958 from the large group of miscellaneous current account transactions were reductions in United States current expenditures in Canada on defence installations, and a generally lower level of receipts by Canadian business firms for sundry services provided to non-residents. This deficit was also widened by moderate increases in Canadian defence costs under NATO obligations and by certain large but non-recurring government transfers. Official contributions by the Government of Canada rose from \$38 million to \$49 million. Chief among these were an increasing scale of expenditures under Colombo Plan commitments and shipments under the 1957-58 and 1958-59 Appropriations to provide for the purchase of wheat and flour for Commonwealth countries in Asia to relieve food shortages; and flour for refugees in the Near East.

Following the abnormally high values recorded in the last quarter of 1957 and in the first quarter of 1958 gold production available for export levelled out for the remainder of the year at approximately \$38 million each quarter. This brought the total of \$160 million for 1958 very close to the post-war record level of \$163 million in 1950, and was a factor in restraining the rise of the non-merchandise current account deficit.

#### Transactions by areas

While the current account deficit with the United States was reduced to \$1,204 million in 1958 from \$1,551 million in 1957, it was still higher than in any year before 1956. At the same time a further contraction to \$92 million occurred in the surplus with all overseas countries. This compares with the historically small balance of \$151 million in the previous year, but is not as small as the surplus in the year 1950. With the United States the change was due to a greater reduction in current payments than in receipts, while with overseas countries the smaller surplus resulted from reduced receipts and increased payments.

Over one-half of the deficit of \$1,204 million with United States originated from net payments for services and other non-merchandise transactions. This group of net payments rose by some 10 per cent to a new peak of \$670 million, having risen sharply in each of the past three years. This level in 1958 is now almost twice as high as the average of \$359 million in the post-war years. Leading sources continued to be net payments on account of interest and dividends, travel expenditures, freight and shipping, migrants' funds, and miscellaneous services. In 1958 some further increases occurred in deficits from travel and interest and dividends, but the biggest change in this direction was a sharp drop in all other current receipts. The latter was partly due to a reduction in current expenditures by the United States on defence installations in Canada. Changes in the opposite direction were a reduction in the deficit on freight and shipping account accompanying the decline in imports and larger gold production than in the previous year.

The largest single change in transactions with the United States, however, was the drop of 11 per cent in merchandise imports. This was the reason for the sharp drop in the merchandise balance with the United States to a deficit of \$534 million from \$947 million in 1957 as the import change was only partly offset by a slight drop in merchandise exports.

The most volatile groups of commodities in Canada's imports in recent years have been concentrated in items obtained from the United States. A major part of the declines in 1958 were in metals and products from the United States such as steel and machinery and equipment. Imports of coal were also down sharply and many other industrial materials obtained in the United States also showed some declines. But a firming in some of these imports appeared in the final quarter.

The level of Canadian exports to the United States was largely sustained even though declines in important groups of commodities were widespread. Exports of uranium doubled to rank in size next to newsprint, and export of cattle also more than doubled due to special factors of demand. Farm implements, lumber, fish and natural gas were among other commodities which rose significantly. The sharpest declines occurred in petroleum, iron ore, nickel, and copper, and some of the other mineral products, while exports of newsprint were moderately lower.

In transactions with the United Kingdom there was a reduction in the current surplus from \$142 million to \$130 million due to a larger deficit in the non-merchandise items. The latter deficit of \$99 million continued to originate largely from travel, interest and dividends, and personal remittances including government expenditures. The growth was due to a reduction in net inward movements of migrants' funds and to a rise in non-recurring government items which more than offset the drop in net payments on income account, accompanying the resumption of interest payments on Canada's post-war loan to the United Kingdom. The commodity account export balance with the United Kingdom in 1958 at \$229 million was unchanged from the previous year when adjustments for balance of payments purposes are made to trade statistics. Both exports and imports rose in Canadian trade with the United Kingdom. In the case of exports the largest rises were in grains, canned salmon, and in the first substantial shipments of uranium. While newsprint and nickel were moderately higher there were declines in lumber

and pulp and in some other leading forest products, and in other minerals and industrial materials. With Canadian imports the most important gains from the United Kingdom were in automobiles and aircraft. Imports of many other items were also increased or maintained, but the textiles group was down.

With the Rest of the Sterling Area Canada's current account surplus rose sharply in 1958. This is estimated tentatively at \$66 million and compares with \$9 million in 1957. The change was due to a sharp rise in exports combined with a fall in imports. The rise in Canadian exports was chiefly due to the large shipments of wheat to Commonwealth countries in Asia financed by the Canadian government under loan and other arrangements. Official contributions by the Canadian government to Commonwealth countries which rose to \$46 million in 1958 include wheat and other commodities financed as contributions under the Colombo Plan and other arrangements. (In addition credit under government loans included in the capital account amounted to a total of \$34 million in 1958). Other current transactions with the Rest of the Sterling Area led to small net receipts by Canada partly because of reduced dividends received by Canadian companies from subsidiaries in the area.

The current surplus with OEEC countries rose to an estimated \$50 million in 1958 from \$29 million in 1957, mainly due to increased exports to this area. Prominent elements in this increase were larger sales of aircraft to Germany and some non-ferrous metals, although exports of iron ore and other industrial materials were down. The major part of the export balance on commodity account was again offset by the large deficit on "invisibles" which in 1957 was \$150 million. Canadian expenditures on defence, travel, transportation, and interest and dividends continued to contribute to a larger deficit on these transactions.

Changes in Principal Elements of the Current Account

with all Countries, 1957 and 1958

(millions of dollars)

<u>Merchandise trade</u>	<u>1957</u>	<u>1958</u>	<u>Change in 1958</u>
Exports (adjusted)	4,909	4,890	- 19
Imports (adjusted)	<u>5,488</u>	<u>5,064</u>	<u>- 424</u>
Deficit on merchandise trade	- 579	- 174	+ 405
<u>Non-merchandise trade</u>			
Gold production available for export	+ 147	+ 160	+ 13
Travel expenditures	- 162	- 192	- 30
Interest and dividends	- 444	- 433	+ 11
Freight and shipping	- 75	- 58	+ 17
Inheritances and migrants' funds	+ 2	- 40	- 42
Official contributions	- 37	- 49	- 12
All other current transactions	<u>- 252</u>	<u>- 326</u>	<u>- 74</u>
Deficit on non-merchandise trade	- 821	- 938	- 117
Total deficit on current account	-1,400	-1,112	+ 288



The deficit with all other countries widened sharply to \$154 million in 1958 from \$29 million in the previous year. This was mainly the result of a trebling in the import balance on merchandise account as exports were substantially lower and imports rose moderately. Exports were lower to principal regions and markets included in this group of countries such as Latin America and Japan. A fall in the surplus from other current transactions with these countries also contributed to the increased current deficit.

#### Capital movements

The United States supplied an increased share of the capital imported in long-term forms in 1958. In amount, the net inflow of direct and portfolio capital from that country was well maintained during the year. Funds for direct investment were off somewhat, but security sales were higher than in 1957 and the net movement was only slightly below the total of \$930 million for the earlier year. In 1958 it accounted for between 80 and 85 per cent of the total movement in these forms (including inter-governmental loans to overseas countries). This was about ten percentage points higher than in 1957 when net capital inflows from overseas countries were higher. The proportion of these movements originating in the United States has increased each year since 1955 when they accounted for less than half the total. In 1958 the inflows in these forms from the United Kingdom and from other overseas countries fell by about one-third and two-thirds respectively. The inflow from portfolio security transactions with the United Kingdom was down sharply, but this decline was partly offset by the repayment on the Canadian loan of 1946, deferred in the previous year, and by somewhat higher inflows for direct investment. Receipts from other overseas countries for both direct and portfolio investment were down compared with 1957, and in addition there was in 1958 a significant extension of credit by the Government of Canada to finance the purchase of wheat.

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1958 is tentatively placed at \$400 million. This represents a decline of \$120 million from 1957 and of \$183 million from the record year of 1956. The inflow in 1958 was, however, nearly \$50 million above the average for the years from 1950 to 1955 and many times larger than the annual inflows prior to the fifties. Net inflows from the United States appear to have fallen by about \$100 million, or by one-quarter, while a drop of perhaps \$25 million in net inflows from overseas countries other than the United Kingdom represented a reduction of about half in the rate of inflow in 1957. On the other hand the net inflow of direct investment capital from the United Kingdom rose moderately in 1958 compared with 1957, although the increase was not related to capital formation during the year.

Industrially there were sharp drops in the inflows for the petroleum industry and manufacturing, offset to some extent by an increase in the inflow for mining operations. Compared with 1957 it would seem that there was relatively little change in the proportion of the inflow going into the petroleum industry, but a significant increase in the proportion going into mining developments, and a decline in the capital supplied to manufacturing.

The capital inflow for direct investment was considerably higher in the last half of 1958 than in the first half. The fourth quarter figure of \$130 million was the third highest recorded for a fourth quarter during the period of nine years covered by official estimates, having been exceeded in 1951 and 1956. Some 55 per cent of the inflow in 1958 occurred in the last half of the year, compared with 51 per cent in 1956 and 1957. But in all three years there were extraordinary transactions in the last half of the year relating to capital formation in other periods.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$15 million in 1958. This figure compares with \$65 million in 1957 and with a record \$104 million in 1956. The net outflow in 1958 was the smallest since 1950; in that year, and for some years earlier, there were net inflows of capital arising from the sale or liquidation of Canadian direct investments abroad. The reduction from 1957 did not reflect reduced Canadian direct investment activity abroad so much as the disposition by Canadian investors of important interests acquired in earlier periods.

Portfolio security transactions were again by far the largest source of foreign capital in 1958, supplying an amount equivalent to 62 per cent of the deficit on current account. The net inflow of \$680 million was less than occurred in either 1956 or 1957 when very strong demand pressures were exerted in Canadian capital markets by unprecedented levels of business capital investment. The capital import from security transactions in 1958 was, however, more than twice the amount in 1950 when the previous record was set in an atmosphere of exchange rate speculation.



The broad similarity of magnitude in the overall capital movement arising from portfolio security transactions in 1956, 1957, and 1958 conceals underlying changes of considerable significance. There were changes in the trend between 1956 and 1957 and again in 1958. The period of greatest inflow occurred in the last half of 1956 and the first half of 1957 when the movement from these transactions was about \$1,000 million. With a moderating level of economic activity the capital inflow from these transactions in the ensuing twelve months fell to about \$600 million. An upturn was apparent in the last half of 1958 when net sales of portfolio securities produced a capital inflow about a third larger than in the corresponding period of 1957.

The total for 1958 was made up of \$651 million from net sales to non-residents of Canadian securities and \$29 million from net sales of foreign securities. This movement of \$680 million compared with \$766 million in 1957 when there were net sales of \$747 million Canadian securities and \$19 million foreign securities. Trade in outstanding Canadian securities in 1958 reflected a sharp drop in net sales of Canadian stocks, but there were also net sales of outstanding Canadian bonds and debentures, in contrast to significant net repurchases in 1957. The balance from trade in all outstanding Canadian securities was \$89 million compared with \$94 million in 1957. The sale to non-residents of new issues of Canadian securities produced \$666 million, compared with \$790 million in 1957, and retirements of foreign held Canadian securities amounting to \$104 million were also smaller than in the previous year.

The increased role in economic activity in 1958 of expenditures by governments at all levels was mirrored in the capital movements from security transactions. In contrast to 1957 when the net inflow from all Canadian securities was made up of \$157 million from transactions in bonds and debentures of Canadian governments and municipalities and \$590 million from corporate bonds, debentures and stocks, the 1958 totals included \$352 million of government issues and \$299 million of corporate issues. Thus the inflow from net transactions in government issues rose by some \$195 million to well over twice the 1957 total, while at the same time net transactions in corporate issues fell by \$291 million to just over half their 1957 value.

Another striking change in portfolio security transactions in 1958 was the geographical origin of the capital inflow. Although the net inflow from all countries declined by 10 per cent to \$680 million, inflows from the United States increased by 8 per cent to \$599 million. Net sales to the United Kingdom fell from \$129 million to \$38 million or by 70 per cent, and net sales to other overseas countries fell from \$74 million to \$43 million, or by 43 per cent. As a result of these changes the proportion of the movement coming from the United States rose from 73 per cent in 1957 to 88 per cent in 1958, while the proportions from the United Kingdom and from other overseas countries fell from 17 per cent and 10 per cent respectively to 6 per cent in each case.

Additional comment and statistical detail on international movements of portfolio capital, including quarterly figures classified by debtor and statistics relating sales contracts and deferred deliveries to non-residents of new issues of Canadian securities, will be found in the DBS report, "Sales and Purchases of Securities between Canada and Other Countries, December 1958, and Review of Security Trading during 1958".

A feature of the Canadian balance of payments in 1958 which has been absent since 1950 was the extension of Government credit to overseas Governments. Advances to India and Ceylon to cover purchases of Canadian wheat totalled \$34 million during the year. Repayments of principal on earlier intergovernmental loans totalled \$64 million, compared with \$50 million in 1957. During 1958 the Government of the United Kingdom repaid \$30 million on the interest-free loan of 1942, completing repayment of the entire credit of \$700 million, and also repaid \$16 million on the 1946 loan; in 1957 the United Kingdom elected under the agreement to defer the scheduled principal repayment on the latter loan. Other principal repayments totalling \$18 million were made during 1958 by Belgium, France, the Netherlands, and Norway.

Increased holdings of Canadian dollars by foreigners represented a significant inflow of \$105 million of non-resident capital. This increase followed declines in 1956 and 1957. The largest part of the change in 1958 occurred in the third quarter when Canadian dollar holdings of foreigners rose by \$90 million. A substantial part of this increase is known to have been set aside for future expenditure in Canada. By far the largest part of the rise during the year occurred in holdings of residents of the United States.

Exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account, led to a capital outflow of \$109 million. This movement followed an inflow of \$105 million in 1957 when official holdings of gold and foreign exchange were reduced. The outflow in 1958 included \$108 million covering the acquisition of gold and United States dollars, and \$1 million covering the acquisition of sterling for official accounts. In terms of United States dollars official holdings of gold and United States funds rose from \$1,828 million at the beginning of the year to

\$1,939 million at the end. Holdings rose in all but two months of 1958, but the year-end total was nearly \$34 million below the month-end record of July, 1957.

Other capital movements resulted over the year in a net inflow of \$21 million. Much larger inflows had occurred on balance from these movements in each of the years from 1955 to 1957, and there were large outflows earlier. The comparatively small net balance suggests a simplicity in these movements which is misleading. The quarterly balances ranged between an inflow of \$114 million in the first quarter to an outflow of \$165 million in the third. Bank balances and other short-term funds held abroad by Canadians, excluding official holdings, increased only moderately over the year as a whole; substantial increases in the first three quarters of the year were followed by reductions in the closing months. Finance companies repaid foreign indebtedness in the first half of the year, but increased their outstanding borrowings from non-residents in the last half of the year and during the year as a whole. A wide variety of other types of capital movement, both inward and outward, was also encompassed within this group.

The price of the United States dollar in Canada fell from 98.41 cents at the end of 1957 to 96.44 cents at the end of 1958. It moved through a high of 99.16 cents in January and a low of 95.75 cents in June, a trading range of 3.41 cents which was narrower than for any year since 1954. In general the United States dollar tended to decline over the first half of the year. The average noon rates from February to July were each lower than for the preceding month. For the first quarter the noon average was 98.11 cents and for the second 96.64 cents. In the third quarter the United States dollar strengthened, and the noon average for the period was 96.70 cents. During the final quarter of the year this tendency was reversed, but the noon average for the quarter as a whole was somewhat higher at 96.79 cents. The noon average of 97.06 cents for the year as a whole compared with 95.88 cents in 1957.

# Summary of Capital Movements, 1955 to 1958

(millions of dollars)

	1955	1956	1957	1958	Change in movement 1958 from 1957
Direct investment in Canada	+ 417	+ 583	+ 520	+ 400	- 120
Direct investment abroad	- 74	- 104	- 65	- 15	+ 50
Canadian securities:					
Trade in outstanding bonds	- 165	+ 11	- 43	+ 6	+ 49
Trade in outstanding stocks	+ 138	+ 188	+ 137	+ 83	- 54
New issues	+ 166	+ 667	+ 790	+ 666	- 124
Retirements	- 184	- 141	- 137	- 104	+ 33
Foreign securities	- 6	+ 2	+ 19	+ 29	+ 10
Loans by Government of Canada:					
Drawings	-	-	-	- 34	- 34
Repayments	+ 69	+ 69	+ 50	+ 64	+ 14
Canadian dollar holdings of foreigners	+ 89	- 24	- 34	+ 105	+ 139
Official holdings of gold and foreign exchange (increase, -)	+ 44	- 33	+ 105	- 109	- 214
Other capital movements	+ 204	+ 148	+ 58	+ 21	- 37
Net capital movement financing current account deficit	+ 698	+1,366	+1,400	+1,112	- 288

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1958 are preliminary and

		1956	1957		
		IV	I	II	III
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,277	1,102	1,215	1,308
3	Gold production available for export .....	35	39	31	27
4	Travel expenditures .....	55	31	76	197
5	Interest and dividends .....	41	25	37	31
6	Freight and shipping .....	120	104	114	113
7	Inheritances and immigrants' funds .....	28	25	42	34
11	All other current receipts .....	124	111	106	91
12	<b>Total Current Receipts</b> .....	<b>1,680</b>	<b>1,437</b>	<b>1,621</b>	<b>1,800</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,427	1,328	1,518	1,350
4	Travel expenditures .....	103	100	142	171
5	Interest and dividends .....	170	129	142	141
6	Freight and shipping .....	137	109	143	131
7	Inheritances and emigrants' funds .....	31	27	30	31
9	Official contributions .....	6	5	8	1
11	All other current payments .....	150	166	166	151
12	<b>Total Current Payments</b> .....	<b>2,024</b>	<b>1,864</b>	<b>2,149</b>	<b>1,995</b>
	Balance on Merchandise Trade .....	- 150	- 226	- 303	- 41
	Balance on Other Transactions, excluding B 9 .....	- 188	- 196	- 217	- 141
	Official Contributions .....	- 6	- 5	- 8	-
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 344</b>	<b>- 427</b>	<b>- 528</b>	<b>- 195</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 181	+ 91	+ 163	+ 131
2	Direct investment abroad .....	- 11	- 20	- 22	- 11
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 13	- 10	- 3	- 11
3b	Trade in outstanding common and preference stocks .....	+ 29	+ 40	+ 47	+ 41
4	New issues .....	+ 200	+ 264	+ 296	+ 141
5	Retirements .....	- 22	- 41	- 23	- 41
	Foreign Securities				
6	Trade in outstanding issues .....	+ 22	- 10	+ 19	+ 11
7	New issues .....	- 6	- 4	- 4	-
8	Retirements .....	-	+ 1	+ 2	+
	Loans by Government of Canada				
9	Drawings .....	-	-	-	-
10,11	Repayments .....	+ 34	+ 7	+ 19	+
14	Change in Canadian dollar holdings of foreigners .....	+ 5	- 33	- 26	+
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 27	+ 13	- 22	+
17	Other capital movements .....	- 48	+ 129	+ 82	- 11
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 344</b>	<b>+ 427</b>	<b>+ 528</b>	<b>+ 195</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports of B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

data for 1957 are subject to revision.

1957					1 9 5 8				Annual Totals				
IV	I	II	III	IV	1955	1956	1957	1958					
(millions of dollars)													
1,284	1,088	1,277	1,218	1,307	4,332	4,837	4,909	4,890	A				
50	44	39	39	38	155	150	147	160	1				
59	32	76	185	59	328	337	363	352	3				
56	31	33	27	70	160	142	149	161	4				
100	95	98	96	100	398	457	431	389	5				
23	18	27	26	20	86	99	124	91	6				
87	88	84	80	85	391	442	395	337	7				
									11				
1,659	1,396	1,634	1,671	1,679	5,850	6,464	6,518	6,380	12				
1,292	1,151	1,354	1,206	1,353	4,543	5,565	5,488	5,064	B				
105	101	145	190	108	449	498	525	544	1				
181	125	129	142	198	483	523	593	594	4				
119	94	116	121	116	415	502	506	447	5				
33	29	33	34	35	105	115	122	131	6				
17	11	16	12	10	24	30	37	49	7				
162	167	172	161	163	529	597	647	663	9				
									11				
1,909	1,678	1,965	1,866	1,983	6,548	7,830	7,918	7,492	12				
- 8	- 63	- 77	+ 12	- 46	- 211	- 728	- 579	- 174					
- 225	- 208	- 238	- 195	- 248	- 463	- 608	- 784	- 889					
- 17	- 11	- 16	- 12	- 10	- 24	- 30	- 37	- 49					
- 250	- 282	- 331	- 195	- 304	- 698	-1,366	-1,400	-1,112	C				
+ 129	+ 85	+ 95	+ 90	+ 130	+ 417	+ 583	+ 520	+ 400	D				
- 5	- 15	- 10	+ 15	- 5	- 74	- 104	- 65	- 15	1				
- 15	- 1	- 10	- 5	+ 22	- 165	+ 11	- 43	+ 6	2				
+ 7	+ 3	+ 13	+ 35	+ 32	+ 138	+ 188	+ 137	+ 83	3a				
+ 88	+ 168	+ 290	+ 96	+ 112	+ 166	+ 667	+ 790	+ 666	3b				
- 28	- 16	- 38	- 8	- 42	- 184	- 141	- 137	- 104	4				
+ 11	+ 10	+ 5	+ 8	+ 14	+ 25	+ 20	+ 37	+ 37	5				
- 7	- 3	- 7	- 1	- 3	- 48	- 18	- 23	- 14	6				
+ 1	+ 1	+ 2	+ 1	+ 2	+ 17	-	+ 5	+ 6	7				
-	- 16	- 8	-	- 10	-	-	-	- 34	8				
+ 17	+ 7	+ 17	+ 7	+ 33	+ 69	+ 69	+ 50	+ 64	9				
+ 18	- 16	+ 40	+ 90	- 9	+ 89	- 24	- 34	+ 105	10,11				
									14				
+ 61	- 39	- 52	+ 32	- 50	+ 44	- 33	+ 105	- 109	16				
- 27	+ 114	- 6	- 165	+ 78	+ 204	+ 148	+ 58	+ 21	17				
+ 250	+ 282	+ 331	+ 195	+ 304	+ 698	+1,366	+1,400	+1,112	E				

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.





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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER, 1959

Canada's current deficit of \$450 million in goods and services with other countries in the first quarter of 1959 compares with \$282 million in the same period of 1958. The change from 1958 resulted from a trebling of the import balance on merchandise account to \$188 million and a rise of about one-fifth to \$262 million in the deficit from non-merchandise transactions.

The larger import balance between 1958 and 1959 has resulted from a rise in the value of imports while the greater imbalance in non-merchandise transactions resulted mainly from larger net payments by Canada on travel abroad, larger net remittances of interest and dividends to non-resident investors, and a temporary reduction in gold production available for export.

The rise in the deficit from non-merchandise transactions has been underway for some years with a consistent and substantial rise in imbalance from non-merchandise sources in each year since 1952. Payments have risen more than receipts reflecting a great variety of influences. These influences are associated for the most part with the rise in Canadian indebtedness to other countries which has led to increased interest, dividends, head office charges and other payments for business services and the rises in population and consumers' incomes which have induced much heavier personal outlays on travel and other services and remittances abroad.

As a result of the rise in net payments for non-merchandise transactions the current deficit of \$450 million in the first quarter of 1959 was greater than the deficit of \$427 million in the first quarter of 1957, which was the highest for that period of the year up to then. In 1959 the imbalance from non-merchandise transactions was up by almost one-third from the 1957 level, although the import balance on merchandise trade was less.

Sharp rise in deficit on merchandise trade

In the first quarter of 1959 there was a rise of 9 per cent in the value of merchandise imports which along with a slight drop in the export total had the effect of producing an import balance of \$188 million compared with \$63 million in 1958, and \$226 million in 1957. This rise in imports contrasts with a decline of 13 per cent between the first quarters of 1957 and 1958. Fluctuations in Canadian imports are closely related to levels of incomes and business activity in Canada, and normally substantial rises accompany general upturns in economic activity of the kind that has been evident.

The increase in the volume of imports in 1959 was somewhat more than in value, import prices being on average appreciably less than one year earlier. As export prices were slightly higher than in the previous year a favourable change in the terms of trade is indicated.

The rise in the value of imports of 9 per cent was due to a few increases of significant size in a small number of commodities along with relative stability in the value of most items and only a few decreases. Increases occurred in such commodities as automobiles and parts, farm implements, some chemicals and rubber. Included among commodities showing relative stability were such large groups, which have shown considerable flexibility in recent years, as industrial machinery and rolling mill products, and also fuel. Among the few instances of declines were coffee, pipes and tubes, mining machinery, aircraft and electrical apparatus.

Prepared in the Balance of Payments Section, International Trade Division.

7503-509-39



Most of the increase which occurred between 1958 and 1959 was from the United States and other non-Commonwealth countries. In comparison with 1956, however, when the total was not dissimilar, the principal change has been less concentration in imports from the United States, with more of the purchases from the United Kingdom and other overseas countries and less from the United States than in that earlier period of rising demands.

While exports from Canada in the first quarter were not greatly different in total value from the previous year, there was considerable change in composition. The drop of less than 2 per cent in total reflects a variety of diverse changes. Several commodities which had been unusually high in the previous year, like cattle and aircraft, were sharply lower. There were also reductions in exports of such metals as aluminum, copper, and nickel more than offsetting a further sharp rise in uranium. On the other hand forest products were higher in total, particularly in the case of lumber and pulp which more than offset a drop in newsprint exports. There was also a small gain in exports of vegetable products including grains and in non-metallic mineral exports in total, although a further decline occurred in petroleum. Gains also occurred in exports of fish and products and agricultural implements.

Changes in the direction of trade were not pronounced. While there were moderate rises in shipments to the United States and United Kingdom, there were declines to other overseas destinations. These were most notable in the case of exports to India and to Europe and Latin America. In the previous year there had been large shipments of government-financed wheat to India and shipments of military aircraft sold to Germany.

#### Further rise in deficit from services and other non-merchandise items

The deficit from non-merchandise transactions continued to rise in the first quarter. At \$262 million the deficit from this source compares with \$219 million in the first quarter of 1958, and \$201 million in that part of 1957, \$176 million in 1956, and \$181 million in 1955. At this level this imbalance was slightly wider even than in peak quarters in recent years which have usually occurred in the fourth or second quarters. In only one year in the post-war period (in 1955) has maximum imbalance from these transactions occurred in the first quarter.

The increased deficit originated in larger net payments on travel and income accounts and in transfers of migrants' funds. And gold production available for export was considerably less than in the previous year, and a small surplus on freight and shipping account disappeared. Changes in the opposite direction occurred, however, in smaller payments on account of official contributions and for all other current transactions.

The deficit on travel account rose from \$69 million to \$84 million. This was the result of larger Canadian expenditures on travel in both the United States and overseas. Although the largest part of the rise was in winter travel in the United States compared with the previous year, there was a particularly sharp increase in Canadian travel overseas as well. At the same time non-resident expenditures on travel in Canada during the winter were only slightly larger than in the previous year.

The deficit of \$110 million on income account compares with \$94 million in the same quarter last year. This was the result of reduced receipts and increased payments. Receipts of dividends by Canadian companies from direct investments abroad were less, while payments of both interest and dividends to non-resident investors were higher. The larger interest payments by Canadian debtors reflected Canadian borrowing in the United States through the sale of new issues in the previous year. The rise in dividends was chiefly the result of larger transfers by subsidiaries to parent companies in the United States, although a small rise also occurred in dividend payments by public companies to non-residents. The increased transfers by subsidiaries were most prominent among industries producing for consumer markets in Canada.

With a reduction in immigration there was a decline in immigrants' transfers, while preliminary indications are that outward transfers were higher. Gold available for export appears to have been temporarily reduced.

In the quarter expenditures by the Canadian Government on official contributions amounted to \$8 million compared with \$11 million in the same quarter of 1958. All other current transactions gave rise to a deficit of \$73 million in 1959 compared with \$79 million in the same quarter of 1958. This was partly because payments had been unusually high in this quarter last year due to some non-recurring government settlements. But while some other official transactions were also less this year, there were general increases in transactions in services by business and individuals.

### Transactions by areas

The current account deficit with all countries rose even more sharply than with the United States where the rise was about one-third from \$320 million in the first quarter 1958 to \$428 million in the first quarter 1959. This was because of an abrupt change in the account with overseas countries from a surplus of \$38 million in 1958 to a deficit of \$22 million in 1959. This latter change was distributed among transactions with the Rest of the Sterling Area, OEEC countries, and other foreign countries. The surplus with the United Kingdom continued at \$12 million.

With the United States the increased deficit came from both commodity trade and non-merchandise transactions. Imports from the United States rose considerably more than exports and most groups of "invisible" items with that country contributed to an enlarged deficit.

With the United Kingdom the current balance remained at \$12 million as a large export balance on merchandise account was offset by a larger deficit from a variety of non-merchandise transactions.

With overseas countries other than the United Kingdom there was a change from a current surplus of \$26 million in the first quarter of 1958 to a deficit of \$34 million in the first quarter of 1959 due to a contraction in merchandise surplus as exports fell and imports rose. This was the case to a varying extent with each of the groups of countries included. In the case of the Rest of the Sterling Area a decline occurred in the current account surplus as the value of exports was smaller mainly due to less wheat exported to countries in Asia compared with 1958 when some large shipments were financed by credit from the Canadian Government. The balance from non-merchandise transactions with this group was the same apart from a lower level of official contributions during the quarter. With OEEC countries the export balance was reduced by about one-half. Exports were considerably lower to many European countries, including Germany, while imports rose. The resulting export balance was more than offset by net payments for non-merchandise transactions. In the case of all other countries the greatest change was a rise in imports.

### Summary of Current Transactions with the United States, United Kingdom, and Other Countries

#### First Quarter 1958 and 1959

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1958	1959	1958	1959	1958	1959	1958	1959
Merchandise exports (adjusted)	1,088	1,071	650	660	157	163	281	248
Merchandise imports (adjusted)	1,151	1,259	828	905	113	112	210	242
Balance on merchandise trade	- 63	- 188	-178	-245	+ 44	+ 51	+ 71	+ 6
Balance on non-merchandise trade	- 219	- 262	-142	-183	- 32	- 39	- 45	- 40
Current account balance	- 282	- 450	-320	-428	+ 12	+ 12	+ 26	- 34



## Capital movements

Capital movements in such long-term forms as direct investment, portfolio security transactions, and official loans led to a net capital inflow of \$235 million in the first quarter equivalent to slightly more than half the deficit on current account in this period. Other capital movements, mainly in short-term forms, totalled \$215 million. It should be noted that the inflow in long-term forms in the first quarter of the year customarily falls short of the current account deficit, and that on three earlier occasions in the fifties the shortfall was relatively greater than in the current year.

The net movement of foreign capital into Canada for direct investment in foreign-controlled enterprises during the first quarter is tentatively placed at \$70 million which is close to the lowest level recorded since 1951. It represents a sharp drop from the movement of \$130 million in the final quarter of 1958, but that quarter was influenced by transfers in anticipation of 1959 capital requirements. The first quarter inflow has customarily been lower than average and the figure for 1959 may be compared with \$85 million for the corresponding quarter of 1958.

Inflows for the development of petroleum and mineral resources although at a reduced level compared with a year earlier, continued to represent by far the largest part of the net movement. The outline of the geographical origin of the inflows was broadly similar with some indication that a slightly higher proportion of the movement came from the United States.

It is tentatively estimated that no net balance resulted from movements of Canadian capital for direct investment abroad during the quarter, outflows having been offset by roughly equivalent returns of capital. This result compared with outflows of \$5 million in the final quarter of 1958 and \$15 million in the first quarter of that year.

Transactions in Canadian portfolio securities led to a net capital inflow of \$163 million. This compared with \$124 million in the final quarter of 1958 and \$154 million in the first quarter of that year. The total of \$163 million included net sales to non-residents of \$35 million outstanding Canadian bonds and debentures, \$33 million outstanding Canadian common and preference stocks and \$133 million of new issues of Canadian securities, offset to the extent of \$38 million by retirements of foreign-held Canadian securities.

The substantial net sales of outstanding Canadian bonds and debentures, made up largely of Government of Canada direct and guaranteed issues represented a further growth over the fourth quarter when net sales occurred for the first time since the first quarter of 1956. The sale to non-residents of \$133 million of new Canadian issues comprised \$112 million of government issues chiefly made up of provincial, and \$21 million of corporate bonds and stocks. More than half of the \$38 million of foreign-held bonds retired during the quarter were issues of the Government of Canada.

Comparing transactions in all Canadian securities during the first quarters of 1958 and 1959 the principal changes were greatly increased net sales to non-residents of outstanding issues of both stocks and bonds, a more moderate reduction in sales of new issues, and increased retirements (due primarily to the prepayment of a Government of Canada issue). The net inflow arising from transactions in securities of governments of all levels as a group rose, while the net inflow from transactions in corporate bonds and stocks fell.

Transactions in foreign portfolio securities led to a net capital inflow of \$3 million in the quarter.

The impact on Canada's balance of payments of intergovernmental loan transactions was smaller than in any earlier quarter covered by official balance of payments statistics. There were no repayments made to Canada, the final quarterly instalment on the 1942 loan to the United Kingdom having been made in 1958. A further advance of \$1 million was made to Ceylon for the purchase of wheat flour.

There was a capital outflow of \$14 million during the quarter arising from reductions in Canadian dollar holdings of foreigners. Outflows of \$9 million and \$16 million occurred respectively in the final and first quarters of 1958, but in the intervening quarters Canadian dollar holdings of foreigners rose by \$130 million. A part of this increase reflected funds held by the Government of Canada in a trust account for the United States Government to facilitate the placing of contracts in respect of Strategic Air Command bases; the balance of this account at March 31, 1959 was estimated in the Budget Papers at \$43.5 million.



A capital inflow of \$49 million occurred from the exchange transactions of the Government of Canada, including the operations of the Exchange Fund Account. Official holdings of gold and United States dollars, expressed in terms of United States currency, were decreased from \$1,939.1 million at December 31, 1958, to \$1,888.3 million at March 31, 1959.

Other capital movements appear on balance to have resulted in an inflow of \$180 million; large inflows in this item are characteristic of the first quarter.

The exchange value of the Canadian dollar fell slightly during the first quarter. The noon average price of the United States dollar in Canada, 97.05 cents, compared with 96.79 cents in the preceding quarter and 97.06 cents for 1958 as a whole. The trading range was 2.03 cents; the low of 96.16 cents was recorded at the beginning of January and the high of 98.19 cents in mid-February. The closing quotation was 96.78 cents.

Summary of Capital Movements, by quarters, 1957 - 1959

(millions of dollars)

	1957	1958				1959
	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Direct investment in Canada	+ 129	+ 85	+ 95	+ 90	+ 130	+ 70
Direct investment abroad	- 5	- 15	- 10	+ 15	- 5	-
Canadian securities:						
Trade in outstanding bonds	- 15	- 1	- 10	- 5	+ 22	+ 35
Trade in outstanding stocks	+ 7	+ 3	+ 13	+ 35	+ 32	+ 33
New issues	+ 88	+ 168	+ 290	+ 96	+ 112	+ 133
Retirements	- 28	- 16	- 38	- 8	- 42	- 38
Foreign securities	+ 5	+ 8	-	+ 8	+ 13	+ 3
Loans by Government of Canada:						
Drawings	-	- 16	- 8	-	- 10	- 1
Repayments	+ 17	+ 7	+ 17	+ 7	+ 33	-
Canadian dollar holdings of foreigners	+ 18	- 16	+ 40	+ 90	- 9	- 14
Official holdings of gold and foreign exchange (increase, -)	+ 61	- 39	- 52	+ 32	- 50	+ 49
Other capital movements	- 27	+ 114	- 6	- 165	+ 78	+ 180
Net capital movement financing current account deficit	+ 250	+ 282	+ 331	+ 195	+ 304	+ 450

QUARTERLY ESTIMATES OF THE CANADA

Note: Data for 1958 are preliminary  
1959

		1957			
		I	II	III	IV
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,102	1,215	1,308	1,284
3	Gold production available for export .....	39	31	27	50
4	Travel expenditures .....	31	76	197	54
5	Interest and dividends .....	25	37	31	56
6	Freight and shipping .....	104	114	113	100
7	Inheritances and immigrants' funds .....	25	42	34	27
11	All other current receipts .....	111	106	91	87
12	<b>Total Current Receipts</b> .....	<b>1,437</b>	<b>1,621</b>	<b>1,801</b>	<b>1,658</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,328	1,518	1,350	1,294
4	Travel expenditures .....	100	142	178	109
5	Interest and dividends .....	129	142	141	183
6	Freight and shipping .....	109	143	135	119
7	Inheritances and emigrants' funds .....	27	30	32	33
9	Official contributions .....	5	8	7	17
11	All other current payments .....	166	166	153	162
12	<b>Total Current Payments</b> .....	<b>1,864</b>	<b>2,149</b>	<b>1,996</b>	<b>1,908</b>
	Balance on Merchandise Trade .....	- 226	- 303	- 42	- 8
	Balance on Other Transactions, excluding B 9 .....	- 196	- 217	- 146	- 222
	Official Contributions .....	- 5	- 8	- 7	- 17
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 427</b>	<b>- 528</b>	<b>- 195</b>	<b>- 250</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 91	+ 163	+ 137	+ 129
2	Direct investment abroad .....	- 20	- 22	- 18	- 5
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 10	- 3	- 15	- 15
3b	Trade in outstanding common and preference stocks .....	+ 40	+ 47	+ 43	+ 7
4	New issues .....	+ 264	+ 296	+ 142	+ 88
5	Retirements .....	- 41	- 23	- 45	- 28
	Foreign Securities				
6	Trade in outstanding issues .....	- 10	+ 19	+ 17	+ 11
7	New issues .....	- 4	- 4	- 8	- 7
8	Retirements .....	+ 1	+ 2	+ 1	+ 1
	Loans by Government of Canada				
9	Drawings .....	-	-	-	-
10,11	Repayments .....	+ 7	+ 19	+ 7	+ 17
14	Change in Canadian dollar holdings of foreigners .....	- 33	- 26	+ 7	+ 18
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 13	- 22	+ 53	+ 61
17	Other capital movements .....	+ 129	+ 82	- 126	- 27
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 427</b>	<b>+ 528</b>	<b>+ 195</b>	<b>+ 250</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual report

B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance to

B 11) actions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1957 are subject to revision.

1958				1959	Annual Totals			Four Quarters ending March 31, 1959	
I	II	III	IV	I	1956	1957	1958		
(millions of dollars)									
1,088	1,277	1,218	1,307	1,071	4,837	4,909	4,890	4,873	A
44	39	39	38	30	150	147	160	146	1
32	76	185	59	33	337	363	352	353	3
31	33	27	70	24	142	149	161	154	4
95	98	96	100	98	457	431	389	392	5
18	27	26	20	17	99	124	91	90	6
88	84	80	85	85	442	395	337	334	7
									11
1,396	1,634	1,671	1,679	1,358	6,464	6,518	6,380	6,342	12
1,151	1,354	1,206	1,353	1,259	5,565	5,488	5,064	5,172	B
101	145	190	108	117	498	525	544	560	1
125	129	142	198	134	523	593	594	603	4
94	116	121	116	98	502	506	447	451	5
29	33	34	35	34	115	122	131	136	6
11	16	12	10	8	30	37	49	46	7
167	172	161	163	158	597	647	663	654	9
									11
1,678	1,965	1,866	1,983	1,808	7,830	7,918	7,492	7,622	12
- 63	- 77	+ 12	- 46	- 188	- 728	- 579	- 174	- 299	
- 208	- 238	- 195	- 248	- 254	- 608	- 784	- 889	- 935	
- 11	- 16	- 12	- 10	- 8	- 30	- 37	- 49	- 46	
- 282	- 331	- 195	- 304	- 450	-1,366	-1,400	-1,112	-1,280	C
									D
+ 85	+ 95	+ 90	+ 130	+ 70	+ 583	+ 520	+ 400	+ 385	1
- 15	- 10	+ 15	- 5	-	- 104	- 65	- 15	-	2
- 1	- 10	- 5	+ 22	+ 35	+ 11	- 43	+ 6	+ 42	
+ 3	+ 13	+ 35	+ 32	+ 33	+ 188	+ 137	+ 83	+ 113	3a
+ 168	+ 290	+ 96	+ 112	+ 133	+ 667	+ 790	+ 666	+ 631	3b
- 16	- 38	- 8	- 42	- 38	- 141	- 137	- 104	- 126	4
									5
+ 10	+ 5	+ 8	+ 14	+ 3	+ 20	+ 37	+ 37	+ 30	6
- 3	- 7	- 1	- 3	- 2	- 18	- 23	- 14	- 13	7
+ 1	+ 2	+ 1	+ 2	+ 2	-	+ 5	+ 6	+ 7	8
- 16	- 8	-	- 10	- 1	-	-	- 34	- 19	9
+ 7	+ 17	+ 7	+ 33	-	+ 69	+ 50	+ 64	+ 57	10,11
- 16	+ 40	+ 90	- 9	- 14	- 24	- 34	+ 105	+ 107	14
- 39	- 52	+ 32	- 50	+ 49	- 33	+ 105	- 109	- 21	16
+ 114	- 6	- 165	+ 78	+ 180	+ 148	+ 58	+ 21	+ 87	17
282	+ 331	+ 195	+ 304	+ 450	+1,366	+1,400	+1,112	+1,280	E

NOTES:

1 A minus sign indicates an outflow of capital from Canada.

2 Exclusive of undistributed profits.

3 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.







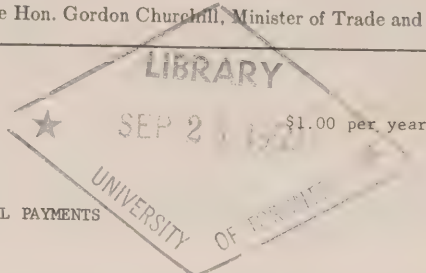
# DOMINION BUREAU OF STATISTICS

## OTTAWA - CANADA

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### QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS SECOND QUARTER, 1959



The outstanding feature of Canada's balance of payments in the first half of 1959 has been the rapid enlargement in the current deficit from transactions in goods and services with other countries. The rising level of imports and a continued growth in the deficit from non-merchandise transactions have combined to expand the current deficit in the half year to \$837 million which was more than a third greater than the corresponding deficit of \$590 million in 1958. At this level the deficit was more than in any other year except 1957 when the imbalance amounted to \$970 million in the half year. In the second quarter the current deficit of \$430 million was also about one-third greater than in the corresponding quarter of 1958.

The leading change has been the rise in the import balance but the amount of the deficit contributed by non-merchandise transactions of \$482 million in the half year was greater than ever before, having been rising for a number of years. In this period it made up well over one-half of the deficit. All groups of transactions contributed to the larger imbalance with the exception of miscellaneous transactions on government account, which in this period of the previous year contained some non-recurring items. Remittances of interest and dividends to non-resident investors continued to be the largest contributor to the non-merchandise deficit and rose more than the other items, other than merchandise imports. A deficit of \$355 million on merchandise account, while considerably more than double that in the half year of 1958, was still well under the peak import balances of 1956 and 1957.

Prominent factors in the background influencing the rising deficit include, of course, the increased economic activity in Canada in 1959. This has raised demands for imports and made for greater rises in imports than in exports, which in many commodities continued to be at less than capacity. Some accumulations of inventories of imported goods also appear to have played a part in recent rises in imports. Another factor has been Canada's increased indebtedness to other countries in recent years, which has been leading to rising payments of interest and dividends in particular, and general growth in Canada has made for larger expenditures and remittances abroad for a variety of purposes.

#### Continued rise in deficit in merchandise trade

In both of the first two quarters of 1959 the import balance on merchandise account was several times higher than in 1958, but remained less than in peak periods of 1956 and 1957. In the six months this merchandise deficit was \$355 million compared with \$140 million in the same half of 1958, and \$474 million and \$529 million respectively in this half year in 1956 and 1957. The big change between 1958 and 1959 has been brought about by the sharp rise of 10 per cent in imports which contrasts with a 2 per cent rise in exports in the half year. In the second quarter, however, the rise in exports was some 6 per cent. While imports in the first half of 1959 were almost as high as in 1956 and 1957, the import balance has been considerably less than in those years because of the higher level of exports in the second quarter of this year.

Imports in the second quarter rose sharply over the second quarter of 1958. This rise of almost 14 per cent in the period was several times that occurring in the first quarter and brought the total to the level of the earlier record in the second quarter of 1956. In the six months the rise has been 10 per cent over 1958 but the half year total was 3 per cent below the earlier peak in 1957 but almost as high as in 1956.

Contributing to the gains in imports in the second quarter have been rises in the levels over 1958 in certain commodities like machinery and metal products and some industrial materials which for over a year have been considerably less than during the period of peak imports, along with continued high levels of some items like automobiles and farm implements which have been consistently high this year. As well as being influenced by higher levels of business activity some build-up of inventories appears to have been a contributor, particularly in the case of steel where a subsequent interruption of supply from industrial disputes in the United States was anticipated.

In the six months increases have been distributed among industrial materials, consumer goods, and some industrial equipment, with less emphasis on the latter than occurred in the second quarter. The increases have been general among sources. While most overseas countries have shared in the increases, imports from the United States also rose significantly and continued to constitute well over two-thirds of the total.

Total exports in the second quarter were up by 6 per cent over the same quarter last year. This was due to a sharp rise in exports to the United States as shipments to overseas destinations were less than in the previous year when some special factors were at work. This contrasts with the export results for the first quarter when there was a decline in the total. The increase in the second quarter to new high levels for the period for both totals to all countries and to the United States was due to general rises in a number of commodities among forest products, metals and minerals. But at the same time some major items like wheat, nickel and military aircraft were lower than in the previous year.

In the six months the pattern of change was generally similar with increases in a number of commodities being partially offset by a number of reductions. The increases were most concentrated in minerals like uranium, iron ore, and asbestos, and forest products of which the best examples are lumber, wood pulp and plywood and veneers, and in farm machinery. The declines were in farm products like wheat and other grains and cattle, in other metals and minerals such as nickel, copper, petroleum, in aircraft and some chemicals. In the previous year wheat and military aircraft particularly were influenced by special factors like government loans and certain contracts which did not recur in 1959. Other major commodities like newsprint, fish, aluminum, zinc, and fertilizer showed little change. Changes in the destinations of exports in the half year were in the same direction as in the second quarter. The recovery in shipments to the United States, leading to that market taking 62 per cent of total exports, more than offset reductions which occurred in shipments to most major overseas markets. An exception to the general declines in overseas trade was a rise in shipments to Japan.

The increase in the volume of imports in the first half of 1959 was slightly more than in value, with import prices averaging below the corresponding period of 1958. As export prices were somewhat higher, there was an improvement in the terms of trade.

#### Deficit from transactions in services and other non-merchandise items higher in half year

In the half year, all groups of non-merchandise transactions but one shared in the continuing growth in the non-merchandise deficit. The deficit of \$482 million from all non-merchandise transactions compares with \$450 million in the first half of 1958, having risen by almost a half since 1956 and having virtually doubled since 1954.

The deficit from services and other non-merchandise transactions declined slightly from \$247 million in the first quarter to \$235 million in the second quarter. While this had the effect of reversing the over-the-year increases in the deficit, which had occurred consistently since the second quarter of 1956, it does not necessarily represent a change of trend as some of the components do not follow a consistent pattern between the first and second quarters. A reduction in the deficit in the travel account affected by the date of Easter, and in non-recurring elements in the previous year in the item "all other current transactions" contributed to this change.

The deficit in the income account of \$213 million contributed the largest part of the increase in the half year. It was \$18 million and \$11 million larger in the first and second quarters of 1959, respectively, or \$29 million for the half year, than in the corresponding periods of 1958, as remittances by non-resident-owned subsidiaries were much higher and the increase in payments of interest and dividends was extended with the continuing growth in non-resident holdings of securities.

In the second quarter of 1959 the deficit on travel account of \$54 million was \$10 million less than in the same period of the previous year, in contrast to the first quarter when it was greater by \$16 million. There was consequently a small rise in the deficit from this group of expenditures to \$138 million from \$132 million in the first half year. These changes were brought about by a significant rise in receipts together with virtually no change in Canadian expenditures abroad in the second quarter following a sharper rise in Canadian expenditures abroad than in receipts in the first quarter. To a considerable extent the opposite trends in Canadian expenditures in the United States in the two quarters are a reflection of the location of heavy Easter travel in March this year in contrast to April in the past few years.

The deficit from freight and shipping was moderately larger, following a relatively higher increase in merchandise imports. Remittances of inheritances and emigrants' funds were somewhat greater, and credits from gold production were smaller in the first half of 1959 than in the same period of 1958. Miscellaneous transactions were the only group which gave rise to a smaller deficit. The reduction was concentrated in the government account, where the imbalance was ameliorated by \$14 million and \$10 million in the first and second quarters, respectively, as some large non-recurring items were included in the first half of 1958.

#### Transactions by areas

The emergence of a current account deficit in Canadian trade with overseas countries has been an exceptional development in 1959. This has been a continuation of a trend which has been underway for some years. The deficit this year follows a greatly reduced surplus in 1958 and contrasts with the large surpluses from transactions with overseas countries which were the characteristic feature some years ago when such surpluses were available for meeting current deficits with the United States. The current deficit with overseas countries of \$80 million in the half year arises from a substantial deficit of \$140 million from non-merchandise transactions with overseas countries which more than offset the greatly reduced merchandise surplus of \$60 million.



Changes during the half year in the bilateral distribution of Canada's current account (as shown in the accompanying summary statement) were featured by an increase of over 10 per cent in the deficit with the United States from \$680 million to \$757 million, a slight decline in the surplus with the United Kingdom to only \$18 million, and a sharp reversal from a positive balance of \$62 million to a deficit of \$98 million for other countries. The enlargement in the deficit with the United States occurred entirely in the first quarter, followed by a moderate amelioration in the second quarter, while more than two-thirds of the deficit growth with overseas countries developed in the second quarter.

While the deficit with the United States for the first six months of 1959 was above that for the same period of the previous year by over 10 per cent, the latest deficit was 72 per cent and 80 per cent of that for the first six months of 1957 and 1956 respectively. The increase in the deficit with that country was distributed in the ratio of about 2 for merchandise trade to 3 for non-merchandise transactions, and the latter group contributed 45 per cent of the total current imbalance with the United States in the half year.

Between the first six months of 1958 and 1959, the positive balance in merchandise trade with the United Kingdom was reduced moderately, as was the deficit on non-merchandise account.

The development of a deficit with all other countries was attributable to a reduction in exports and a rise in imports which turned a large export balance in 1958 into a small import balance in 1959. With the O.E.E.C. group of countries the positive balance on merchandise trade was reduced by some \$100 million and a current account deficit with these countries appeared. Contributing to these latter changes was the absence this year of military aircraft which had been delivered in the previous year. There were also reduced sales of grains to some Western European countries. Declines in exports to other areas overseas were also general with the most notable exception being Japan to which market shipments rose significantly. At the same time Canadian imports from many overseas countries rose substantially in the half year with increased purchases of both manufactured goods and primary commodities.

Summary of Current Transactions with the

United States, United Kingdom and Other Countries, 1958 and 1959

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1958	1959	1958	1959	1958	1959	1958	1959
<u>Second quarter</u>								
Merchandise exports (adjusted)	1,277	1,352	720	850	206	201	351	301
Merchandise imports (adjusted)	1,354	1,547	926	1,045	157	177	271	325
Balance on merchandise trade	- 77	- 195	- 206	- 195	+ 49	+ 24	+ 80	- 24
Balance on non-merchandise trade	- 246	- 235	- 178	- 173	- 25	- 21	- 43	- 41
Current account balance	- 323	- 430	- 384	- 368	+ 24	+ 3	+ 37	- 65
<u>January to June</u>								
Merchandise exports (adjusted)	2,365	2,409	1,370	1,498	363	364	632	547
Merchandise imports (adjusted)	2,505	2,764	1,754	1,913	270	287	481	564
Balance on merchandise trade	- 140	- 355	- 384	- 415	+ 93	+ 77	+151	- 17
Balance on non-merchandise trade	- 450	- 482	- 296	- 342	- 65	- 59	- 89	- 81
Current account balance	- 590	- 837	- 680	- 757	+ 28	+ 18	+ 62	- 98

## Capital Movements

The net inflow of capital to Canada in such long-term forms as direct investment, portfolio securities, and official loans, amounted to \$311 million in the second quarter of 1959 compared with \$247 million in the first quarter. At these rates it was equivalent to 72 per cent of the current account deficit in the second quarter and to 61 per cent in the first. As will be seen, the second quarter was influenced by larger than usual movements for the acquisition of existing investments in Canada; these extraordinary transactions more than accounted for the higher proportion of the current account deficit covered by capital movements in long-term forms. It should again be noted, however, that the proportion of annual capital inflows in long-term forms occurring in the first half of the year is normally smaller than the proportion of the current account deficit incurred in this period.

The other capital movements, mainly in short-term forms, totalled \$119 million in the second quarter of 1959 and \$160 million in the first. There are many types of movements included within these inflows. Important in the second quarter, among the elements which are shown separately in the statement, was a sharp growth in Canadian dollar holdings of foreigners. This inflow was mainly the result of conditions in the short-term money market. There was at the same time, however, an outward movement of similar magnitude reflecting increased official holdings of gold and foreign exchange. Amongst the other movements in the second quarter were a substantial reduction in Canadian holdings of foreign exchange by other than official accounts, and increases in Canadian payables. During the first quarter there was an important inflow reflecting a reduction of official holdings of gold and foreign exchange, but the largest part of the net movement appeared to reflect increased payables on commercial account.

The accompanying statement includes half-yearly data. It reveals that capital movements in the long-term forms shown separately have not kept pace with the rising current account deficit in 1959. The deficit in the first half of 1959 was \$247 million higher than for the same period of 1958. But the net inflow of capital for direct investment, security, and official loan transactions was \$2 million smaller than in the earlier period. And the current account deficit increased by \$342 million between the last half of 1958 and the first half of 1959 while the movements in the long-term forms mentioned rose by only \$29 million. Canada's international transactions in 1959 have consequently depended to an increasing extent on the use of short-term credit either through the drawing down of Canadian assets abroad or the increasing of Canadian liabilities. Money market conditions have played an important part in this process.

Geographically, during both the first and second quarters of 1959, 80 per cent of the net movement of capital in the long-term forms described earlier came from the United States. This was roughly the same proportion as for 1958 as a whole. In the first half of 1958 the United States accounted for a larger part of the total, but in the second half for a smaller part. In absolute amounts, the inflow from the United States estimated at some \$445 million in the first half of 1959 was at just about the 1958 annual rate. It was smaller than the total of \$488 million in the corresponding period of 1958 but above the total of \$397 million for the last half of the year. But, as will be indicated, the inflow in 1959 included some special transactions which more than account for the difference in the latter comparison. During the first quarter of 1959 these inflows from the United States were equivalent to slightly more than one-half the current account deficit with that country, and in the second quarter to slightly more than two-thirds. These proportions were lower than for any quarter in 1958 and compare with nearly four-fifths for the year as a whole.

A sharp rise occurred in the net inflow of foreign capital for direct investment in foreign-controlled enterprises during the second quarter. The movement is tentatively placed at \$180 million, compared with a revised estimate of \$85 million for the first quarter of the year. The second quarter movement was not far below the record for any quarter. Contributing to the increase of \$95 million was a substantial net movement for the acquisition of existing Canadian-owned interests in several concerns, although there were at the same time also several instances where Canadians acquired from non-residents control of concerns in Canada. The largest element in the movement arose from an offering by a United States automobile manufacturer to purchase shares of a Canadian affiliate. But apart from transactions of this nature there appears to have been a significant increase during the quarter in direct investment inflows for new capital formation. About half the total movement in the second quarter was directed to the petroleum and mining industries, and about four-fifths came from the United States.

Transfers of Canadian capital for direct investment abroad are tentatively estimated to have given rise to outflows of \$5 million in each of the two quarters of 1959.

Transactions in Canadian portfolio securities gave rise to a capital inflow of \$135 million. This was smaller than the figure of \$168 million for the first quarter, and of \$243 million for the corresponding quarter of 1958. Net sales to non-residents of outstanding Canadian bonds and debentures were smaller than in the first quarter. New issues on the other hand were larger, but the increase was more than offset by heavier retirements of foreign-held Canadian securities. A substantial part of the retirements in the quarter reflected the maturity of provincial bonds sold on the New York market thirty years ago. Retirement of foreign-held Canadian bonds and debentures during the first half of 1959 represented about 2 per cent of the total outstanding in non-resident hands.



Transactions in foreign securities gave rise to a net capital outflow in the second quarter of 1959. There has been increasing interest by Canadian investors in the purchase of United States stocks and bonds, although the net outflow of \$9 million in the quarter is a relatively small element in the Canadian balance of payments.

Further use of the credit extended by the Government of Canada for the purchase of wheat flour by Ceylon was made during the second quarter but the amount was not large enough to appear in the balance of payments statement. At the same time there were principal repayments to Canada of \$10 million on post-war intergovernmental loans made to Belgium, the Netherlands, and Norway. This amount was smaller than in the corresponding quarter of 1958 because the interest-free loan of 1942 to the United Kingdom was fully repaid in that year. Repayments in the second quarter of 1959 included \$2.6 million from Norway which was the last payment due on the loans of more than \$23 million made between 1945 and 1948.

Canadian dollar holdings of foreigners rose sharply in the second quarter of 1959. The capital import totalled \$42 million in contrast to the outflow of \$14 million in the first quarter when Canadian dollar holdings of foreigners were reduced. This development appears to have been the result of the high yields obtainable on Canadian treasury bills. During the quarter the average yields on the weekly tender for three-month bills ranged between 4.33 per cent and 5.22 per cent. In the previous quarter they had ranged between 3.25 per cent and 4.30 per cent. In contrast the corresponding rates in the United States ranged between 2.72 per cent and 3.28 per cent in the second quarter and between 2.59 per cent and 3.06 per cent in the first. While the cost of forward exchange protection absorbed an increasing amount of the interest differential, investment in Canadian treasury bills proved attractive to foreign investors, who are estimated to have added about \$60 million to their holdings during the second quarter, bringing their total holdings to well over \$100 million. More than half the increase in holdings of Canadian treasury bills by foreigners during the second quarter was for account of United States residents. Total non-resident-owned deposits in Canada were reduced by about \$18 million during the quarter.

A capital outflow of \$43 million occurred during the second quarter representing increased holdings of gold and foreign exchange in Government and official accounts, including the Exchange Fund Account. This outflow followed an inflow of \$49 million in the first quarter when holdings by these accounts were reduced. Official holdings of gold and United States dollars, expressed in terms of United States currency, were increased from \$1,888.3 million at the end of March 1959 to \$1,934.2 million at the end of June.

Other capital movements appear on balance to have resulted in an inflow of \$120 million in the second quarter, following an inflow in the first quarter now estimated at \$125 million. It has been observed before that substantial inflows from this group of capital movements are generally characteristic of the first half of the year. The largest part of the movement in the second quarter was an inflow resulting from a reduction in private and banking holdings of foreign exchange. Increases in Canadian commercial payables appear also to have been important. In the previous quarter substantially all the inflow appears to have been related to net accounts payable. In this connection, it may be noted that there was a substantial commodity deficit in March in contrast to a surplus in December.

The exchange value of the Canadian dollar rose during the second quarter of the year. The United States dollar which closed the first quarter at 96.78 cents in Canadian funds reached its high of 96.75 cents in the quarter on the first trading day and its low of 95.41 cents on the second last day. The trading range of 1.34 cents was exactly equal to the decline from the close of the first quarter to the close of the second. The trading range compared with 2.03 cents in the first quarter, and the decline with an increase of 0.34 cents. In general the exchange rate fluctuations in the second quarter were relatively smooth. The last ten days of June saw the delivery to Canadian individuals of a substantial volume of United States dollar cheques in connection with an offer for stock. Nearly 0.5 cents of both the trading range and of the decline in the Canadian dollar price of the United States dollar occurred in this brief period. The noon average for the quarter as a whole was 96.17 cents which compared with 97.05 cents in the first quarter. The noon average for the second quarter was the lowest since the third quarter of 1957.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1959 are preliminary and

		1957			1958	
		II	III	IV	I	II
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted) .....	1,215	1,308	1,284	1,088	1,27
3	Gold production available for export .....	31	27	50	44	3
4	Travel expenditures .....	76	197	59	32	7
5	Interest and dividends .....	39	32	58	31	3
6	Freight and shipping .....	117	117	103	98	10
7	Inheritances and immigrants' funds .....	42	34	23	18	2
11	All other current receipts .....	104	89	85	94	8
12	<b>Total Current Receipts</b> .....	1,624	1,804	1,662	1,405	1,64
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted) .....	1,518	1,350	1,292	1,151	1,35
4	Travel expenditures .....	142	178	105	100	14
5	Interest and dividends .....	155	137	173	116	13
6	Freight and shipping .....	147	135	120	95	11
7	Inheritances and emigrants' funds .....	37	43	44	29	3
9	Official contributions .....	8	7	17	11	1
11	All other current payments .....	163	155	164	170	17
12	<b>Total Current Payments</b> .....	2,170	2,005	1,915	1,672	1,96
	Balance on Merchandise Trade .....	- 303	- 42	- 8	- 63	- 7
	Balance on Other Transactions, excluding B 9 .....	- 235	- 152	- 228	- 193	- 23
	Official Contributions .....	- 8	- 7	- 17	- 11	- 1
<b>C</b>	<b>Current Account Balance</b> .....	- 546	- 201	- 253	- 267	- 32
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 155	+ 133	+ 128	+ 97	+ 10
2	Direct investment abroad .....	- 21	- 21	- 8	- 15	- 1
	Canadian Securities					
3a	Trade in outstanding bonds and debentures .....	- 4	- 15	- 16	- 3	- 1
3b	Trade in outstanding common and preference stocks .....	+ 48	+ 43	+ 6	+ 3	+ 1
4	New issues .....	+ 295	+ 144	+ 85	+ 175	+ 29
5	Retirements .....	- 25	- 36	- 30	- 29	- 5
	Foreign Securities					
6	Trade in outstanding issues .....	+ 15	+ 13	+ 8	+ 5	-
7	New issues .....	- 4	- 8	- 7	- 4	-
8	Retirements .....	+ 2	+ 1	+ 2	+ 2	+
	Loans by Government of Canada					
9	Drawings .....	-	-	-	- 16	- 8
10,11	Repayments .....	+ 19	+ 7	+ 17	+ 7	+ 1
14	Change in Canadian dollar holdings of foreigners .....	- 27	+ 7	+ 18	- 16	+ 4
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 22	+ 53	+ 61	- 39	- 5
17	Other capital movements .....	+ 115	- 120	- 11	+ 100	- 4
<b>E</b>	<b>Net Capital Movement</b> .....	+ 546	+ 201	+ 253	+ 267	+ 32

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports.  
B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance tran  
B 11) actions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1958 are subject to revision.

1958		1959		Annual Totals			Four Quarters Ending June 30, 1959	
III	IV	I	II	1956	1957	1958		
(millions of dollars)								
1,218	1,307	1,057	1,352	4,837	4,909	4,890	4,934	A
39	38	35	40	150	147	160	152	1
186	55	33	85	337	363	349	359	3
29	72	28	40	142	154	166	169	4
98	103	98	112	457	445	401	411	5
26	20	17	30	99	124	91	93	6
85	99	92	98	442	388	366	374	7
								11
1,681	1,694	1,360	1,757	6,464	6,530	6,423	6,492	12
1,206	1,349	1,217	1,547	5,565	5,488	5,060	5,319	B
191	111	117	139	498	525	542	558	1
141	196	131	150	523	587	586	618	4
127	124	98	126	502	515	460	475	5
39	41	33	40	115	157	145	153	6
12	11	8	19	30	37	50	50	7
163	159	163	166	597	645	665	651	9
								11
1,879	1,991	1,767	2,187	7,830	7,954	7,508	7,824	12
+ 12	- 42	- 160	- 195	- 728	- 579	- 170	- 385	
- 198	- 244	- 239	- 216	- 608	- 808	- 865	- 897	
- 12	- 11	- 8	- 19	- 30	- 37	- 50	- 50	
- 198	- 297	- 407	- 430	-1,366	-1,424	-1,085	-1,332	C
								D
+ 105	+ 142	+ 85	+ 180	+ 583	+ 514	+ 450	+ 512	1
+ 14	- 3	- 5	- 5	- 104	- 68	- 20	+ 1	2
- 6	+ 21	+ 35	+ 21	+ 11	- 45	-	+ 71	3a
+ 34	+ 31	+ 33	+ 34	+ 188	+ 137	+ 84	+ 132	3b
+ 100	+ 128	+ 137	+ 152	+ 667	+ 798	+ 695	+ 517	4
- 24	- 52	- 37	- 72	- 141	- 133	- 156	- 185	5
+ 3	+ 8	-	- 9	+ 20	+ 24	+ 16	+ 2	6
- 2	- 4	- 2	- 2	- 18	- 24	- 17	- 10	7
+ 2	+ 2	+ 2	+ 2	-	+ 6	+ 7	+ 8	8
-	- 10	- 1	-	-	-	- 34	- 11	9
+ 7	+ 33	-	+ 10	+ 69	+ 50	+ 64	+ 50	10,11
+ 90	- 9	- 14	+ 42	- 24	- 35	+ 106	+ 109	14
+ 32	- 50	+ 49	- 43	- 33	+ 105	- 109	- 12	16
- 157	+ 60	+ 125	+ 120	+ 148	+ 95	- 1	+ 148	17
+ 198	+ 297	+ 407	+ 430	+1,366	+1,424	+1,085	+1,332	E

## NOTES:

1 A minus sign indicates an outflow of capital from Canada.

2 Exclusive of undistributed profits.

3 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

Summary of Capital Movements, 1958 and 1959

(millions of dollars)

	1958		1959		1958		1959
	III	IV	I	II	First half	Second half	First half
Direct investment in Canada	+ 105	+ 142	+ 85	+ 180	+ 203	+ 247	+ 265
Direct investment abroad	+ 14	- 3	- 5	- 5	- 31	+ 11	- 10
Canadian securities							
Trade in outstanding bonds	- 6	+ 21	+ 35	+ 21	- 15	+ 15	+ 56
Trade in outstanding stocks	+ 34	+ 31	+ 33	+ 34	+ 19	+ 65	+ 67
New issues	+ 100	+ 128	+ 137	+ 152	+ 467	+ 228	+ 289
Retirements	- 24	- 52	- 37	- 72	- 80	- 76	- 109
Foreign securities	+ 3	+ 6	-	- 9	- 3	+ 9	- 9
Official loan repayments (net)	+ 7	+ 23	- 1	+ 10	-	+ 30	+ 9
Canadian dollar holdings of foreigners	+ 90	- 9	- 14	+ 42	+ 25	+ 81	+ 28
Official holdings of gold and foreign exchange (increase, -)	+ 32	- 50	+ 49	- 43	- 91	- 18	+ 6
Other capital movements	- 157	+ 60	+ 125	+ 120	+ 96	- 97	+ 24
Net capital movement financing current account	+ 198	+ 297	+ 407	+ 430	+ 590	+ 495	+ 83





# DOMINION BUREAU OF STATISTICS

## OTTAWA - CANADA

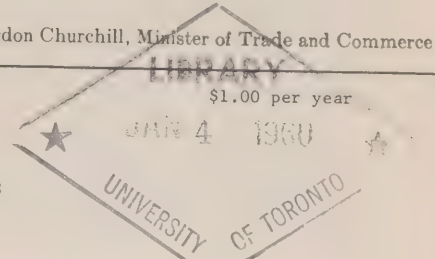
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### QUARTERLY ESTIMATES OF

### THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER, 1959



A further growth in the size of the current account deficit occurred in the third quarter. In the nine months this excess of expenditures by Canadians on goods and services in other countries over receipts of exports of goods and services amount to \$1,119 million. At this level the current deficit is 42 per cent more than the deficit of \$788 million for the same period of 1958 and only 4 per cent less than in the highest level for this period which occurred in 1957 when the deficit amounted to \$1,171 million.

In comparison with last year the largest part of the rise in the deficit has been from the merchandise trade deficit of \$426 million which compares with \$128 million in 1958. But the major source of the deficit, over 60 per cent, continues to arise from non-merchandise transactions. The deficit on the latter contributed \$693 million, a rise of some 5 per cent over the same period last year. In comparison with 1957 the merchandise deficit in 1959 was still less than then, although the deficit from non-merchandise transactions has grown by 15 per cent.

The current deficit at \$286 million in the third quarter was higher than in that period of any earlier year comparing with \$198 million in 1958, \$201 million in 1957, and \$216 million in 1956. Because of certain seasonal influences, particularly on merchandise trade, and the tourist trade, the factors making for a current deficit have usually been less strong in the third quarter than in any other period of the year. In this period of 1959 the rise in the deficit from the previous year was entirely on account of merchandise trade.

Capital inflows of a generally long-term character in the third quarter were relatively substantial in relation to the smaller size of the current deficit which occurred in the third quarter. At \$269 million inflows in these forms compare with \$261 million in the second quarter and \$268 million in the first quarter. In the two earlier periods the current deficits were much larger and substantial amounts were financed by capital inflows of a short-term type. In the first half year some 36 per cent of the current deficits was financed by net capital inflows in short-term forms. In the third quarter some types of short-term inflow continued, particularly in the earlier part of the period, but there were also outflows offsetting most of this group of inflows.

Higher levels of economic activity and stronger demands over the previous year have been reflected in the Canadian balance in 1959 in the larger current deficit in goods and services along with enlarged current receipts and payments. Because of the general nature of investment in Canada in 1959 and conditions affecting money markets a prominent part of the capital inflows has taken the form of sales to non-residents of new issues of government and municipal securities, particularly in the third quarter. Non-resident investments of this kind have been rising rapidly leading to commitments for interest and principal payments in the future. Inflows in connection with non-resident direct investments in Canada in the third quarter were on a reduced scale from the previous year.

#### Continuing rise in deficit on merchandise trade

The rise in the import balance on merchandise account in the third quarter of 1959 from the same period of 1958 was brought about by a greater rise in imports than in exports. Imports were 13 per cent higher than in the previous year compared with a rise of 6 per cent in exports, and the import balance of \$82 million compares with an export balance of \$12 million last year. This is a larger import balance for this quarter than in any earlier year except 1956 when the value of exports was appreciably less than in this quarter of 1959. In the third quarter the normal influences on the balance of commodity trade are in the direction of a sharp reduction in the pattern prevailing in the first half year. This was again the result in 1959 with a decline in the import balance in the third quarter to \$82 million from \$190 million in the second quarter as the volume of trade in mid-summer was reduced.

In the first three quarters of 1959 the import balance of \$426 million was more than three times the balance of \$128 million in the same period of 1958. Most of this change occurred in a sharp reduction in the export balance with overseas countries from \$297 million in 1958 to \$54 million this year, the result of a rapid rise in imports from overseas coinciding with a reduced export movement. The rise in imports was widely distributed as to sources while a large part of the reduction in exports was to Western Europe, with significant parts attributable to the absence this year of military aircraft delivered in 1958 to Belgium and Germany, and to reduced sales of grain. With the United States in the same period there was a rise in the import balance from commodity trade from \$425 million to \$480 million as a part of the increased imports from that country was offset by larger exports of many major commodities.

The rising tendency in the prices of exports combined with a declining tendency in the import prices has led to a continuing improvement in the terms of trade during the year.

Prepared in the Balance of Payments Section, International Trade Division.

7503-509-99

The Queen's Printer and Controller of Stationery, Ottawa, 1959

Imports into Canada in the third quarter of 1959 continued to show sharp gains over the previous year, and with a rise of 13 per cent, the total was higher in value than in any other third quarter. The increase in imports from the United States was not far below this in rate while imports from overseas sources rose even more. In the case of the United Kingdom the gain was 22 per cent.

Available details on the composition of imports in the third quarter suggest a pattern generally comparable with that in the earlier part of the year. Throughout the year imports of producers' materials have been rising with higher industrial production. Also prominent among increases have been automobiles, farm implements, and many consumer goods. Imports of industrial machinery and equipment have also shown some significant rises.

Exports of merchandise in the third quarter of 1959 were 6 per cent higher than in the same period last year, and also more than in any similar quarter of earlier years except 1957. The expansion in this quarter was comparable to that in the preceding quarter of this year and was distributed in trade to each main area except the OEEC countries and the United Kingdom. The gains were principally in shipments of forest products, iron ore, uranium and some other non-ferrous metals, but some declines continued in major commodities like wheat and other grains, cattle, fish, aluminum, and aircraft.

In nine months exports in 1959 were 3 per cent higher with increases in the second and third quarters being partly offset by a lower total in the first quarter this year. In this longer period trends in different commodities were also mixed. While significant gains occurred in many prominent commodities, there were some offsetting declines in other commodities than referred to above in the third quarter. There were, for instance, declines in petroleum, nickel, and pulp wood, which occurred in the first half of the year.

#### Continuing importance of large deficit from services and other non-merchandise items

The unfavourable balance on non-merchandise account increased from \$660 million for the first three quarters of 1958 to \$693 million during the corresponding period of 1959. While this represented a 5 per cent change, the contribution of the "invisible" items to the larger total deficit on current account fell from 84 per cent to 62 per cent during this period, owing to a much sharper rise in the deficit on merchandise trade.

The deterioration in the non-merchandise deficit in the nine months resulted from larger increases in payments than in receipts in nearly every component account. An exception was the government account, whose negative balance improved in the nine-month comparison largely due to the inclusion of payments by the Canadian Government of non-recurring tax refunds in the first half of 1958. Lower receipts from gold production available for export also contributed to increasing the unfavourable balance on non-merchandise transactions.

Interest receipts increased slightly, while interest payments rose considerably more, particularly in the first two quarters, reflecting such factors as the effects of new borrowing, general shift in the holdings, and the debt conversion in 1958. The gain in dividend payments was in the form of remittances by Canadian subsidiaries to their parents in the United Kingdom and, in particular, in the United States. The increased remittances were restricted to the first half of the year, as fairly large payments by several companies in the third quarter of 1958 were not made in the corresponding quarter of the current year.

Payments for freight and shipping gained considerably, as merchandise imports recorded sharp increases during 1959. Freight earnings also increased, but more moderately, as exports of bulk commodities such as iron ore picked up in the nine-month comparison. A higher level of withdrawals of funds by emigrants also prevailed, following the increased movement of Canadians abroad, and particularly to the United States. On the receipts side interactions occurred between factors such as the reduced number of immigrants to Canada in 1959 and the introduction of more liberal regulations in the United Kingdom on the transfer of legacies and emigrants' funds. In addition, United States expenditures on defence installations in Canada have also risen this year.

Contributions under the Colombo Plan were higher in the second and third quarters of 1959 than in the same period of the preceding year, as were other items such as donations of Canadian skimmed milk powder and other contributions.

In the third quarter the deficit from non-merchandise transactions was slightly less than in the previous year. This was to a considerable extent the result of a variety of unrelated factors and transfers in a single quarter in some accounts which are not indicative of changing trends. An example of this is the interest and dividend account where there was a reduction in the quarter in the net payments, largely due to the effects of various irregular corporate transfers, whereas the underlying trend is upward with the effects of heavy borrowing abroad through the sale of new issues and from other capital inflows financing the current account deficit. On the other hand a notable improvement occurred in the level of United States travel expenditures in Canada in the quarter which rose more than Canadian travel expenditures in the United States. Meanwhile there was a further rise in the deficit on travel account with overseas countries in the quarter.

#### Transactions by areas

The exceptional deficit with overseas countries as a group which had emerged in the first half year further widened in the third quarter. For the three quarters of 1959 the current deficit with all overseas countries totalled \$200 million compared with a surplus of \$40 million in the same period of 1958. The change was brought about by the sharp contraction in the merchandise trade export balance with overseas which was greatly reduced to \$54 million as imports rose while exports fell. The deficit of \$200 million on current account resulted from the net payments of \$254 million which Canada made to overseas countries for a variety of services and remittances. Substantial deficits with overseas, particularly with the United Kingdom and Western Europe, resulted from payments for travel, transportation, interest and dividends, military expenditures, personal remittances, and business services. There have also been large official contributions to countries in Asia. Included in the above current account deficit is a small deficit with the United Kingdom which appeared for the first time in the third quarter as the export balance from trade with that country contracted to less than the deficit on non-merchandise transactions. Current deficits with overseas countries present, of course, a striking contrast with the substantial surpluses which used to be a feature of the triangular nature of Canada's trade in which surplus balances with overseas played a part in the settlement of deficits with the United States.



The largest part of the above changes occurred in the merchandise trade balance with the "Other Countries" group, shown in the summary of current transactions published in this report. Further, roughly one-half of the increase in the deficit in the trade account with all countries resulted from a shrinkage in the positive trade balance with the OEEC countries from \$167 million in the first three quarters of 1958 to an estimated \$21 million in the same period of 1959. A major factor of special character contributing to this development is the delivery to the Federal Republic of Germany and Belgium in 1958 of military aircraft worth \$65 million, which did not recur in 1959. Along with this, shipments of wheat to Belgium, the Netherlands and Switzerland fell more than \$28 million. Other sizeable reductions included exports of some metals and seeds to various major markets in Western Europe, although there were, of course, increases in the exports of some other commodities to these countries. A fact of some interest is that over one-half of the sharp change in the merchandise balance with "Other Countries" took place in the second quarter of 1959, the period in 1958 when the above aircraft deliveries were highest. There was a deficit of \$138 million on non-merchandise account with "Other Countries", only slightly less than in the previous year, which was the source of over 70 per cent of the current deficit. The amount of the current deficit with OEEC countries contained in the group "Other Countries" was over \$100 million in the nine months, more than double the deficit of \$50 million with OEEC countries in the first half of 1959, which compares with a surplus of almost the same size in the corresponding period of 1958. With the Rest of the Sterling Area, also included in "Other Countries", there was a current surplus of \$19 million in the nine months, as compared with that of \$53 million in the same period of 1958.

Notwithstanding the singular development described above the largest part, or over 80 per cent, of Canada's current account deficit was with the United States, which stood at \$919 million for the first nine months of 1959. As compared with the same period of the preceding year, the deficit increased \$91 million, of which \$55 million pertained to trade and \$36 million to non-merchandise transactions. Most of the rise in the current account deficit with the United States took place in the first quarter of 1959, as an improvement in the trade deficit occurred in the second quarter and a reduction in the non-merchandise deficit in the third quarter. Among factors contributing to the latter was a substantial rise in travel expenditures in Canada by visitors from the United States in the summer, and higher expenditures by the United States authorities for defence installations in Canada.

A surplus of \$44 million on current account with the United Kingdom for the first three quarters of 1958 changed to a small deficit in the corresponding period of 1959. This unusual turn resulted from a rise of nearly 12 per cent in the imports from the United Kingdom, while the value of Canadian exports to that country and the negative balance on non-merchandise transactions remained about the same.

#### Summary of Current Transactions with the

#### United States, United Kingdom and Other Countries, 1958 and 1959

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1958	1959	1958	1959	1958	1959	1958	1959
<u>Third quarter</u>								
Merchandise exports (adjusted)	1,218	1,286	757	806	192	189	269	291
Merchandise imports (adjusted)	1,206	1,368	798	887	127	155	281	326
Balance on merchandise trade	+ 12	- 82	- 41	- 81	+ 65	+ 34	- 12	- 35
Balance on non-merchandise trade	- 210	- 204	- 107	- 93	- 49	- 54	- 54	- 57
Current account balance	- 198	- 286	- 148	- 174	+ 16	- 20	- 66	- 92
<u>First nine months</u>								
Merchandise exports (adjusted)	3,583	3,702	2,127	2,311	555	553	901	838
Merchandise imports (adjusted)	3,711	4,128	2,552	2,791	397	443	762	894
Balance on merchandise trade	- 128	- 426	- 425	- 480	+158	+110	+139	- 56
Balance on non-merchandise trade	- 660	- 693	- 403	- 439	-114	-116	-143	-138
Current account balance	- 788	-1,119	- 828	- 919	+ 44	- 6	- 4	-194



### Capital movements

The net inflow of capital into Canada from transactions in the form of long-term direct investment and portfolio security transactions totalled \$269 million in the third quarter, equivalent to 94 per cent of the current account deficit in this period. This is the first occasion since the beginning of official quarterly estimates of capital movements when inflows in long-term forms during the third quarter were smaller than the deficit. Direct investment flows were lower than usual, but the proceeds of Canadian securities sold to non-residents, mainly new issues by governments and municipalities, rose sharply. Sales of new issues to non-residents were the highest ever recorded in a third quarter.

Comparing the first nine months of 1959 with the same period of 1958, there was little difference in the amount of net inflows in such long forms as direct investment, portfolio securities, and official loans. The figures were \$798 million in 1959 and \$793 million in 1958, although totals for the more recent period include in the second quarter some inflows of an extraordinary character. Moreover, although the inflows in 1958 were sufficient to finance the current account deficit incurred in this period, in 1959 they fell far short of the greatly enlarged deficit, and inflows in other forms, mainly of a short-term character, were required to finance nearly 29 per cent of the current account deficit.

Geographically slightly more than 80 per cent of the capital inflows in long-term forms during the first nine months have come from the United States. This was also the experience in 1958. Net inflows from the United Kingdom represented less than 5 per cent of the movement in 1959 compared with about 15 per cent in 1958. A considerable part of the change reflected outflows from Canada for direct investment in the United Kingdom, although the completion in 1958 of repayments by the United Kingdom on the \$700 million loan of 1942 was also an important factor, and inflows from the United Kingdom to Canada both for direct investment in Canada and for the purchase of Canadian securities were smaller. Inflows in long-term forms from other overseas countries, on the other hand, were larger in 1959 both for direct and portfolio security investments, and there were no large extensions of intergovernmental loans; as a result the proportion of the net long-term inflow attributable to those countries rose from less than 5 per cent in 1958 to 15 per cent this year.

The net inflow of capital for direct investment in foreign-controlled enterprises in Canada during the third quarter of 1959 is tentatively estimated at \$85 million. This is the same as for the first quarter but is down sharply from the figure of \$180 million for the second quarter, which was influenced by some large transactions of a non-recurring character. Not all the difference arose from these changes in ownership of existing investments, and there appears to have been some decline in the third quarter in the rate of other net movements for direct investment.

Well over half the net movement in the third quarter was directed to the petroleum and mining industries, although the amounts in each case were smaller than in the second quarter. The decline in the net inflow for mining reflected outflows of a seasonal character. Established manufacturing concerns withdrew capital from Canada during the quarter through repayment of long-term liabilities to parent companies. So far as can be determined this process reflected the transfer of liquid assets available in amounts greater than impending cash requirements, and arising perhaps from the substantial cash flowing into such concerns in the form of undistributed profits and depreciation allowances. No significant part of the outflows has been related to the disposal of plant or equipment. (A similar tendency towards the settlement of short-term payables to parent companies was evident). In other industrial sectors, there were, on balance, capital inflows arising to a considerable extent from the purchase by non-residents of interests in existing merchandising and financial institutions. About three-fifths of the net inflow in the third quarter for direct investment in Canada came from the United States.

Transfers of capital from Canada for direct investment abroad are tentatively placed at \$15 million in the third quarter. This outflow followed similar movements of \$20 million and \$5 million in the first and second quarters respectively.

Transactions in Canadian portfolio securities led to a capital inflow of \$202 million in the third quarter compared with \$85 million in the second quarter and \$204 million in the first. The growth in the third quarter of non-resident holdings of provincial, municipal, and corporate securities was equivalent to 56 per cent of the net new issues of such securities. In the second quarter the acquisitions by foreign investors equalled 22 per cent of the net new issues and in the first quarter 41 per cent.

The main factor contributing to the increased inflow in the third quarter was an increase of \$90 million in sales to non-residents of new issues of Canadian securities. New issues outside Canada by Canadian municipalities accounted for more than half of the increase although sales to non-residents of new issues by provincial governments and the Government of Canada were also significant factors. There were net sales to non-residents of \$58 million of outstanding Canadian securities, and retirements of \$56 million of foreign-held Canadian securities. Transactions in Canadian treasury bills are not included in the foregoing figures but are referred to below.

Transactions in foreign securities led to a net capital outflow of \$3 million in the third quarter compared with \$9 million in the second.

For the first time since 1950 when official quarterly estimates of capital movements were commenced, there were in the third quarter of 1959 neither drawings nor repayments of Government of Canada loans to overseas governments.

Canadian dollar holdings of foreigners rose by \$22 million during the third quarter. This followed an increase of \$45 million in the second quarter and a decrease of \$12 million in the first. The largest part of the increase was in holdings by residents of the United States. In the second quarter non-residents added more than \$60 million to their holdings of Canadian treasury bills, at the same time reducing their Canadian dollar deposits by \$15 million. In contrast over the third quarter as a whole there was no significant change in the holdings of Canadian treasury bills by foreigners, but they increased their Canadian dollar balances by \$22 million. Because of maturities the maintenance of

the treasury bill holdings necessitated a substantial volume of new sales. In the succeeding months of the third quarter non-residents purchased \$38 million, \$42 million, and \$14 million. Non-resident owned holdings reached a month-end peak of about \$140 million in August but fell by about \$25 million in the final month of the quarter. These developments were, of course, related to the prevailing conditions on the money and exchange markets. While Canadian treasury bills continued to carry appreciably higher yields than United States issues, the differential narrowed somewhat in the latter part of August and after allowing for the cost of exchange protection through forward transactions the employment of United States funds in Canadian treasury bills ceased to be advantageous.

There was only a small net movement of capital, an outflow of \$3 million, reflecting changes during the third quarter of 1959 in Canada's official holdings of gold and foreign exchange. During the first quarter there had been an inflow of \$49 million as official holdings were reduced, and in the second quarter an outflow of \$43 million reflecting increased holdings. Official holdings of gold and United States dollars rose from \$1,934.2 million, expressed in terms of United States funds, at the beginning of the third quarter, to \$1,938.3 million at the end. There was a decline of \$16.9 million in July, but this was more than offset by increases in the following months. (Canada's increased subscriptions to the International Bank for Reconstruction and Development and to the International Monetary Fund were not paid in until the fourth quarter.)

The net movement of capital in other forms during the third quarter amounted only to an outflow of \$2 million following inflows of \$95 million and \$170 million in the first and second quarters respectively. Transactions which have meaning against the background of prevailing monetary condition and in the settlement of Canada's international accounts may lie concealed within the balance of such a group of amorphous movements. Broadly speaking three major elements, each of the order of \$100 million or more, stand out in the third quarter: a reduction in the net spot holdings of foreign exchange by Canadian banks, a substantially greater increase in the holdings by non-bank sectors of the Canadian economy, and an inward balance from other types of transactions which are believed to have taken mainly the form of increased short-term payables.

The capital inflow implied in the reduction of net foreign assets of the Canadian banks is undoubtedly related to the heavy demands on the resources of the banking system during this period. No information is available which reveals the characteristics of the co-incidental and substantially larger growth of deposits in foreign currency held by other Canadians. The opposite direction of the movements suggests that one may be partly explained by the other, but in the absence of greater statistical detail it is not possible to determine what significance they may hold for the balance of payments.

On the basis of partial data it would appear that an inflow of about \$100 million has occurred during each quarter of 1959 to date from increases in net open account and commercial indebtedness. These inflows presumably reflect provision of credit to some sectors in their search for financial resources.

The Canadian dollar showed strength on the international exchange market during the third quarter. The noon average price for the United States dollar in Canada averaged 95.45 cents, compared with 96.17 cents in the second quarter. This was the lowest average since the third quarter of 1957. The rate at the end of June was 95.44 cents, and it fell over the quarter to close at 94.66 cents. The trading range between the high of 96.00 cents reached on July 23 and the low which closed the quarter was 1.34 cents. This range was the same as in the second quarter.

Summary of Capital Movements, 1958 and 1959  
(millions of dollars)

	1958		1959			1958	1959
	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	First nine months	First nine months
Direct investment in Canada	+ 105	+ 142	+ 85	+ 180	+ 85	+ 308	+ 350
Direct investment abroad	+ 14	- 3	- 20	- 5	- 15	- 17	- 40
Canadian securities:							
Trade in outstanding bonds	- 6	+ 21	+ 34	+ 16	+ 33	- 21	+ 83
Trade in outstanding stocks	+ 34	+ 31	+ 33	+ 34	+ 25	+ 53	+ 92
New issues	+ 100	+ 128	+ 175	+ 110	+ 200	+ 567	+ 485
Retirements	- 24	- 52	- 38	- 75	- 56	- 104	- 169
Foreign securities	+ 3	+ 6	-	- 9	- 3	-	- 12
Official loan repayments (net)	+ 7	+ 23	- 1	+ 10	-	+ 7	+ 9
Canadian dollar holdings of foreigners	+ 90	- 9	- 12	+ 45	+ 22	+ 115	+ 55
Official holdings of gold and foreign exchange (increase, -)	+ 32	- 50	+ 49	- 43	- 3	- 59	+ 3
Other capital movements	- 157	+ 60	+ 95	+ 170	- 2	- 61	+ 263
Net capital movement financing current account	+ 198	+ 297	+ 400	+ 433	+ 286	+ 788	+ 1,119

Note: Data for 1959 are preliminary and

		1957		1958		
		III	IV	I	II	III
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted) .....	1,308	1,284	1,088	1,277	1,213
3	Gold production available for export .....	27	50	44	39	3
4	Travel expenditures .....	197	59	32	76	18
5	Interest and dividends .....	32	58	31	34	2
6	Freight and shipping .....	117	103	98	102	9
7	Inheritances and immigrants' funds .....	34	23	18	27	2
11	All other current receipts .....	89	85	94	88	8
12	<b>Total Current Receipts</b> .....	1,804	1,662	1,405	1,643	1,683
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted) .....	1,350	1,292	1,151	1,354	1,200
4	Travel expenditures .....	178	105	100	140	19
5	Interest and dividends .....	137	173	116	133	12
6	Freight and shipping .....	135	120	95	114	12
7	Inheritances and emigrants' funds .....	43	44	29	36	3
9	Official contributions .....	7	17	11	16	1
11	All other current payments .....	155	164	170	173	16
12	<b>Total Current Payments</b> .....	2,005	1,915	1,672	1,966	1,877
	Balance on Merchandise Trade .....	- 42	- 8	- 63	- 77	+ 1
	Balance on Other Transactions, excluding B 9 .....	- 152	- 228	- 193	- 230	- 19
	Official Contributions .....	- 7	- 17	- 11	- 16	- 1
<b>C</b>	<b>Current Account Balance</b> .....	- 201	- 253	- 267	- 323	- 193
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 133	+ 128	+ 97	+ 106	+ 10
2	Direct investment abroad .....	- 21	- 8	- 15	- 16	+ 1
	Canadian Securities					
3a	Trade in outstanding bonds and debentures .....	- 15	- 16	- 3	- 12	-
3b	Trade in outstanding common and preference stocks .....	+ 43	+ 6	+ 3	+ 16	+ 1
4	New issues .....	+ 144	+ 85	+ 175	+ 292	+ 10
5	Retirements .....	- 36	- 30	- 29	- 51	- 2
	Foreign Securities					
6	Trade in outstanding issues .....	+ 13	+ 8	+ 5	-	+ 1
7	New issues .....	- 8	- 7	- 4	- 7	-
8	Retirements .....	+ 1	+ 2	+ 2	+ 1	+ 1
	Loans by Government of Canada					
9	Drawings .....	-	-	- 16	- 8	-
10,11	Repayments .....	+ 7	+ 17	+ 7	+ 17	+ 1
14	Change in Canadian dollar holdings of foreigners .....	+ 7	+ 18	- 16	+ 41	+ 1
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 53	+ 61	- 39	- 52	+ 1
17	Other capital movements .....	- 120	- 11	+ 100	- 4	- 1
<b>E</b>	<b>Net Capital Movement</b> .....	+ 201	+ 253	+ 267	+ 323	+ 193

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports of the Board of Trade.

B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.



## BALANCE OF INTERNATIONAL PAYMENTS

data for 1958 are subject to revision.

1958	1 9 5 9			Annual Totals		Four Quarters Ending Sept. 30, 1959		
IV	I	II	III	1956	1957	1958		
(millions of dollars)								
1,307	1,061	1,355	1,286	4,837	4,909	4,890	5,009	A
38	37	40	32	150	147	160	147	1
55	33	87	214	337	363	349	389	3
72	28	41	37	142	154	166	178	4
103	98	112	102	457	445	401	415	5
20	17	29	31	99	124	91	97	6
99	91	92	101	442	388	366	383	7
								11
1,694	1,365	1,756	1,803	6,464	6,530	6,423	6,618	12
1,349	1,215	1,545	1,368	5,565	5,488	5,060	5,477	B
111	117	139	216	498	525	542	583	1
196	131	151	138	523	587	586	616	4
124	98	126	134	502	515	460	482	5
41	33	42	44	115	157	145	160	6
11	8	19	22	30	37	50	60	7
159	163	167	167	597	645	665	656	9
								11
1,991	1,765	2,189	2,089	7,830	7,954	7,508	8,034	12
- 42	- 154	- 190	- 82	- 728	- 579	- 170	- 468	
- 244	- 238	- 224	- 182	- 608	- 808	- 865	- 888	
- 11	- 8	- 19	- 22	- 30	- 37	- 50	- 60	
- 297	- 400	- 433	- 286	-1,366	-1,424	-1,085	-1,416	C
+ 142	+ 85	+ 180	+ 85	+ 583	+ 514	+ 450	+ 492	D
- 3	- 20	- 5	- 15	- 104	- 68	- 20	- 43	1
								2
+ 21	+ 34	+ 16	+ 33	+ 11	- 45	-	+ 104	3a
+ 31	+ 33	+ 34	+ 25	+ 188	+ 137	+ 84	+ 123	3b
+ 128	+ 175	+ 110	+ 200	+ 667	+ 798	+ 695	+ 613	4
- 52	- 38	- 75	- 56	- 141	- 133	- 156	- 221	5
+ 8	-	- 9	- 4	+ 20	+ 24	+ 16	- 5	6
- 4	- 2	- 2	- 1	- 18	- 24	- 17	- 9	7
+ 2	+ 2	+ 2	+ 2	-	+ 6	+ 7	+ 8	8
- 10	- 1	-	-	-	-	- 34	- 11	9
+ 33	-	+ 10	-	+ 69	+ 50	+ 64	+ 43	10,11
- 9	- 12	+ 45	+ 22	- 24	- 35	+ 106	+ 46	14
- 50	+ 49	- 43	- 3	- 33	+ 105	- 109	- 47	16
+ 60	+ 95	+ 170	- 2	+ 148	+ 95	- 1	+ 323	17
+ 297	+ 400	+ 433	+ 286	+1,366	+1,424	+1,035	+1,416	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.

#### Annual report

The report "The Canadian Balance of International Payments, 1958, and International Investment Position" has now been published. This annual report contains 65 pages of extended comment and statistics on Canada's international financial relationships including bilateral quarterly statements for major countries and areas, and details of Canada's international investment position. A supplement brings forward to 1957 detailed estimates of foreign ownership and control of Canadian industry. (Catalogue 67-201, price 75 cents).

#### New publication

Readers of this report may also be interested in a newly published Reference Paper which explores the subject of Canada's external short-term assets and liabilities and makes available for the first time totals and industrial classifications of Canadian creditors and debtors on international commercial account. At the end of 1958 Canadian short-term liabilities represented by inter-company and other accounts and loans payable totalled some \$1,000 million, while international assets of a corresponding nature totalled around \$300 million. Canada's total holdings of foreign exchange, apart from the official holdings, totalled some \$900 million at the end of 1958. Addition of the newly produced material places Canada's overall net balance of international indebtedness at \$13,500 million at the end of 1958.

The report is a technical one and includes descriptions of statistical sources and methods. It provides greater background knowledge than has heretofore been available in answer to a need by those interested in the mechanism of adjustment in the balance of payments, exchange rate behaviour, and related subjects. Catalogue 67-504: Canada's External Short-Term Assets and Liabilities 1945-1957 (Price 50 cents).



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### QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1959, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1959

The imbalance from Canada's current transactions in goods and services with other countries rose to \$1,460 million in 1959 from \$1,085 million in 1958. At this level Canada's international current account deficit was slightly higher than the previous annual peak of \$1,424 million in 1957. As a result of this imbalance Canada's indebtedness to other countries has again continued to rise sharply from the inflows of capital from other countries which financed the balance of payments for goods and services imported.

Canada's net indebtedness to other countries rose from \$13.5 billion at the end of 1958 to some \$15.4 billion by the end of 1959 due to the inflows of capital and to the retention in Canada of earnings on non-resident investments. The main factor leading to this rise in net indebtedness has been the steady growth in long-term investments in Canada owned by non-residents. At the end of 1959 these were some \$20.6 billion compared with \$19.1 billion in 1958 and \$8.0 billion at the beginning of 1950.

The current deficit of \$1,460 million in 1959 arises from the excess of payments for goods and services purchased from other countries over receipts from goods and services sold to other countries. More than one-half of the increase in the deficit for the year was contributed by the enlarged balance from merchandise trade which rose from \$170 million in 1958 to \$386 million in 1959 as merchandise imports rose more than merchandise exports. At the same time the deficit from non-merchandise transactions continued the steady growth which has been under way for a number of years. At \$1,074 million in 1959 this deficit from non-merchandise transactions made up about three-quarters of the total current deficit, having risen from \$915 million in 1958. At this level in 1959 this deficit was more than double the deficit from the same sources as recently as 1955 and many times the deficit a decade ago.

The rising balance of payments for non-merchandise transactions is largely attributable to the continued rapid growth in Canada's indebtedness to other countries and to the high levels of incomes spent by an enlarged population. More than one-half of this deficit of \$1,074 million is directly related to Canada's indebtedness abroad and subject to the effects of continued growth. Total interest and dividend payments by Canadians to other countries at \$656 million in 1959 were higher than ever before. In addition other forms of transfer of investment income added a further \$100 million of related payments and there were also larger payments by Canadian subsidiaries to parent companies for services abroad. Net payments on account of the above groups of transactions which are related to Canada's foreign investment position amounted to well over \$600 million in 1959. And not included in this figure or the current account are the substantial earnings retained in Canada on foreign investments.

The continued recovery in economic activity in Canada and abroad of course had the effect of enlarging both international income and outgo. As the greatest increases both absolutely and relatively were in outlays for imports of merchandise and in income transfers and other payments for services, there was the above expansion in the deficit both from merchandise trade and non-merchandise trade. In the case of merchandise the deficit is highly variable being a relatively small part of very large magnitudes. In the case of non-merchandise transactions the deficit has reached unprecedentedly large proportions amounting to fully two-thirds of the current receipts from non-merchandise items. And the trend in payments for most groups of these transactions has been contributing to rises for the reasons noted above. Changing forms of investment in Canada and conditions in national and international financial markets were also influential factors affecting the balance of payments.

Prepared in the Balance of Payments Section, International Trade Division.

7503-509-129



Larger inflows of capital from the sale of government issues to non-residents accompanied more borrowing by governments in a period of rising interest rates. At the same time total capital inflows into business forms of investment were less than in recent years even when significant purchases of existing assets are included. As a result long-term forms of capital inflow were relatively stable during the year but were supplemented by substantial short-term inflows in the earlier parts of the year.

#### Developments in Fourth Quarter

In the fourth quarter the current deficit of \$303 million was only slightly higher than the deficit of \$297 million in the same period of 1958, although the deficit from non-merchandise transactions of \$339 million in this quarter of 1959 was one-third larger than in the previous year. The other main change was the appearance of an export balance of \$36 million on merchandise account compared with an import balance in 1958. The deficit from non-merchandise transactions of \$339 million establishes a new record much higher than any earlier quarter, but it should be noted that the fourth quarter has usually been the period of the year when the deficit from these transactions is greatest. Contributing to this concentration in 1959 were large net payments of interest and dividends and high levels of other payments for services and official contributions. On the other hand the export balance on commodity account in the quarter appears to have been affected by special factors. This small export balance was considerably less than the abnormal exports of steel and copper to the United States during the period of restricted supplies in that country due to industrial disputes -- a situation which also is believed to have reduced supplies of some commodities imported into Canada. Inflows of capital of a long-term type financed the main part of the deficit in the fourth quarter with a sharp increase in inflows for direct investment and continued large inflows into Canadian securities.

#### Summary of Current Transactions with the

United States, United Kingdom and Other Countries, 1958 and 1959

(millions of dollars)

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1958	1959	1958	1959	1958	1959	1958	1959
<u>Fourth Quarter</u>								
Merchandise exports (adjusted)	1,307	1,450	782	882	213	227	312	341
Merchandise imports (adjusted)	1,349	1,414	885	924	141	156	323	334
Balance on merchandise trade	- 42	+ 36	- 103	- 42	+ 72	+ 71	- 11	+ 7
Other current receipts	387	376	261	255	65	66	61	55
Other current payments	642	715	464	512	73	84	105	119
Balance on non-merchandise trade	- 255	- 339	- 203	- 257	- 8	- 18	- 44	- 64
Current account balance	- 297	- 303	- 306	- 299	+ 64	+ 53	- 55	- 57
<u>Calendar Year</u>								
Merchandise exports (adjusted)	4,890	5,152	2,909	3,192	768	780	1,213	1,180
Merchandise imports (adjusted)	5,060	5,538	3,437	3,710	538	598	1,085	1,230
Balance on merchandise trade	- 170	- 386	- 528	- 518	+ 230	+ 182	+ 128	- 50
Other current receipts	1,533	1,605	1,096	1,159	195	205	242	241
Other current payments	2,448	2,679	1,702	1,877	317	335	429	467
Balance on non-merchandise trade	- 915	-1,074	- 606	- 718	- 122	- 130	- 187	- 226
Current account balance	-1,085	-1,460	-1,134	-1,236	+ 108	+ 52	- 59	- 276

### Larger deficit on merchandise trade in the year

The import balance on merchandise trade at \$386 million in 1959 was more than twice the balance of \$170 million in 1958, but still considerably below the peak imbalance from this source of \$728 million and \$579 million which occurred in 1956 and 1957 respectively. The rise was the result of a greater increase in imports than in exports as imports have demonstrated much more flexibility than exports in recent years. But exports reached an appreciably higher total value than the level of the previous three years while imports had not regained the total value reached in 1956. The sharpest increases in imports occurred in the second and third quarters while the biggest upturn in exports was in response to strong demands in the fourth quarter following moderate rises in the second and third quarters. The increase in the deficit on merchandise account occurred in the first half of the year as a surplus, commented on elsewhere, appeared in the final quarter.

Some improvement occurred in the terms of trade from small changes in both export and import prices. While average export prices were slightly higher throughout the year there were also slightly lower import prices.

Increases in imports of merchandise which occurred in 1959 were widely distributed as is usually the case in a period of rising economic activity. The increase of \$478 million or over 9 per cent in the total was substantial but the total value was still slightly less than the peak which occurred in 1956, although many commodities were purchased in larger volume than then. Some commodities on which there had been exceptional import dependence in the earlier period of concentrated expansion in business investment were imported in significantly smaller volume in 1959. Examples of these are provided by primary steel, steel pipe, and industrial machinery. Some of the increases between 1958 and 1959 however, were in the latter group of commodities, although difficulties of supply due to industrial disputes in the United States tended to hold the total down. In addition there were larger imports of many industrial materials used by Canadian industry in a higher level of activity.

Sources of Canadian imports were less concentrated in the United States than formerly. Providing some 67 per cent of Canadian imports in 1959 the United States accounted for something more than one-half the rise during the year. But increases in imports of manufactured goods from overseas sources including the United Kingdom, Europe, and Japan were relatively sharper than from the United States.

A rise in the value of all exports of \$262 million, or over 5 per cent was the result of a greater expansion in shipments to the United States which country took some 62 per cent of Canadian exports in 1959. Total exports to overseas countries were less than in 1958, although there were increases to some markets like the United Kingdom and Japan. As a result of these trends exports to the United States were higher than ever before while the total overseas was somewhat less than in either of the previous three years. The appreciable rise in the total to all countries contrasts with the relatively stable level of the totals in the three previous years.

Expansions in demands for industrial materials produced by leading primary industries were responsible for most of the gain in total exports. As a result exports of forest products, minerals, and metals were up by over 10 per cent. Among the sharpest rises were lumber, pulp and paper, iron ore, milk products, and uranium and some other non-ferrous metals. There was also a substantial rise in agricultural implements and other steel products. In the latter part of the year a major part of the rise in exports to the United States was in commodities like primary iron and steel and copper where supplies in the United States were abnormally affected by industrial disputes.

Offsetting some of the above rises were reductions in shipments of agricultural products including grains and seeds, cattle and meat and in manufactured products like military aircraft and ships which had for special reasons been high in the previous year.

### New record in deficit from services and other non-merchandise items

The tendency in evidence since early 1956 for a continuing growth in the deficit on non-merchandise transactions in each quarter and in the year was extended in 1959, when the deficit reached a record level of \$1,074 million. This total compared with \$915 million for the preceding year; while the deficit stood at \$255 million and \$339 million respectively in the fourth quarters of the two latest years. As compared with the 1949 total of \$116 million, the 1959 deficit was more than nine times as large, and more than twice as great as that for a year as recent as 1955.



The \$159 million rise in the non-merchandise deficit during 1959 was largely attributable to a sizable gain in the remittance abroad of interest and dividends, a sharper increase in payments than in receipts for freight and shipping and for miscellaneous transfers referred to as "all other" current transactions, and a reduced value of gold production available for export. Both the receipts and payments for travel advanced fairly substantially during the year, but as the changes were about the same magnitude, there was hardly any contribution from this account to heightening the deficit on "invisible" items. A similar interaction took place, though at a lower level, with respect to receipts and remittances of inheritances and migrants' funds. Immigration into Canada during 1959 was lower, particularly from the United Kingdom, but more liberal regulations were instituted in that country on the transfer of legacies and emigrants' funds.

Net transfers abroad of investment income in the form of interest and dividends on securities grew nearly 16 per cent from \$420 million in 1958 to a new high level of \$486 million in the year under review; and, apart from other forms of income transfer, represented 45 per cent of the current account deficit outside of merchandise trade. This proportion was at about the same level as in 1958, but much lower than in several preceding years. Total receipts of interest and dividends were up slightly from 1958, with the interest income being higher in the second half of 1959. Total remittances of interest and dividends rose \$70 million to \$656 million, or 12 per cent, with each of the components showing the same relative gain. An increase in the net holdings of securities, reflecting substantial bond sales in 1958 and early in 1959 by Canadian provinces, municipalities and utilities, together with higher interest rates accounted for the larger remittances, while transfers of dividends by non-resident-owned subsidiaries advanced sharply, and dividends to non-resident shareholders of public companies increased more moderately.

On freight and shipping account, the deficit increased over 60 per cent from \$59 million to \$95 million. Total receipts were only slightly more as higher receipts on inland freight on overseas exports were partly counterbalanced by a further reduction in the number of Canadian ships during 1959. Freight and shipping payments, on the other hand, rose \$46 million, reflecting a rise in general imports from overseas countries in particular.

Changes in Principal Elements of the Current Account

with all Countries, 1949 and 1957 to 1959

(millions of dollars)

	1949	1957	1958	1959	Net Change	
					1949-1959	1958-1959
<u>Merchandise trade</u>						
Exports (adjusted)	2,989	4,909	4,890	5,152	+ 2,163	+ 262
Imports (adjusted)	<u>2,696</u>	<u>5,488</u>	<u>5,060</u>	<u>5,538</u>	<u>+ 2,842</u>	<u>+ 478</u>
Deficit on merchandise trade	+ 293	- 579	- 170	- 386	- 679	- 216
<u>Non-merchandise trade</u>						
Gold production available for export	+ 139	+ 147	+ 160	+ 147	+ 8	- 13
Travel expenditures	+ 92	- 162	- 193	- 192	- 284	+ 1
Interest and dividends	- 307	- 433	- 420	- 486	- 179	- 66
Freight and shipping	+ 50	- 70	- 59	- 95	- 145	- 36
Inheritances and migrants' funds	+ 9	- 33	- 54	- 55	- 64	- 1
Official contributions	- 6	- 37	- 50	- 71	- 65	- 21
All other current transactions	<u>- 93</u>	<u>- 257</u>	<u>- 299</u>	<u>- 322</u>	<u>- 229</u>	<u>- 23</u>
Deficit on non-merchandise trade	- 116	- 845	- 915	-1,074	- 958	- 159
Total deficit on current account	+ 177	-1,424	-1,085	-1,460	- 1,637	- 375



All other current transactions, second only to the income account in its influence towards widening the non-merchandise deficit, recorded a rise of \$44 million in net payments. Within this group, an increase of \$39 million, or 13 per cent, occurred in the payments for business services with the resurgence of economic activity in 1959. Included in these services are advertising, architectural, engineering, other professional, technical and research and management services, as well as royalties, patents and copyrights. Receipts for the sale of business services also advanced, but by 5-1/2 per cent. Payments on government account were at about the same level in both 1958 and 1959; but official contributions increased in the latter period, due mainly to larger contributions of wheat to India and Pakistan and to increased shipments financed under the Colombo Plan.

Transactions by areas -- emergence of current deficit with overseas along with trade deficit with the United States

In 1959 Canadian purchases of goods and services from overseas countries exceeded export sales by \$224 million, a deficit which contrasts with a credit balance of \$49 million in 1958. The principal factors bringing this about were a sharp rise in imports, a slightly lower total of exports, and a substantial growth in the balance of payments for other transactions with overseas countries. This current deficit contrasts with the surpluses formerly characteristic of this trade which played a part in settling Canada's chronic current deficits with the United States. The surplus with overseas, however, had been contracting each year since 1952.

Contributing to this development in 1959 was a decline in the current account surplus with the United Kingdom together with a widening in the deficit with the United States and with "other countries", as shown in the accompanying table. The increase in the deficit with the latter group, which was more than twice as great as that with the United States, mainly originated in trade with the OEEC countries and their overseas territories. There was also a sharp contraction in the surplus with the Sterling Area outside of the United Kingdom to some \$12 million.

After reductions in the current account deficit with the United States in the two preceding years, the deficit was widened by \$102 million to \$1,236 million in 1959. This imbalance, which was surpassed only by those of 1956 and 1957, resulted from a substantial increase in the deficit from non-merchandise transactions, offset by a small improvement in the merchandise trade deficit.

Following an interruption in 1958 in the growing tendency of the net payments for services and other non-merchandise transactions with the United States, the deficit from these transactions rose \$112 million, or about 18-1/2 per cent, from \$606 million to \$718 million in 1959. More than four-fifths of this change was attributable to increases of over 10 per cent in the remittances of interest and dividends and in the payments for business services. Net payments on freight and shipping, personal remittances, inheritances and migrants' funds and other miscellaneous income added smaller contributions to the non-merchandise imbalance, as did also the fall in the amount of gold production available for export. A larger gain in receipts than in payments on travel account together with an increase in current receipts from other services in 1959 served to ameliorate the deepening of the deficit from "invisible" transactions.

The smaller improvement in the merchandise trade deficit with the United States followed increases of \$283 million and \$273 million respectively in the exports and imports (both adjusted for balance of payments purposes) during 1959. Substantial increases in exports occurred in shipments of iron ore, steel sheets, plates and strips and other semi-processed steel products (these latter commodities being undoubtedly affected by the prolonged industrial dispute in the United States steel industry), other crude metals and minerals, lumber, pulp and paper. Exports of cattle and beef fell in 1959 as normal factors of demand were restored in the United States. Imports of farm and other machinery, tractors and automobile parts increased sharply within the important commodity division of iron and its products, while imports of pipes, tubes and fittings and some other steel products declined, as was the case with raw cotton.

The diminution in the current account surplus with the United Kingdom, which first developed in 1956, continued in 1959, when the favourable balance declined by \$56 million. With the exception of 1950, this is the smallest surplus with that country in over two decades. The reduction in the current surplus was largely attributable to the \$48 million decline in the merchandise trade surplus, as the increase in imports was about five times that of exports. Passenger automobile imports were up materially, as also were those of electrical apparatus and rolling mill products, but purchases of some types of fabricated steel products tended to be lower. A large increase in exports of uranium ores and concentrates to the United Kingdom occurred, and this gain was larger than that to the United States in 1959. Other export increases covered agricultural products such as soya cake and oil, tobacco and butter, offset by reductions in shipments of barley, other grains and beans. Lumber exports fell behind, while positive and negative changes in exports of crude metals and of various types of pulp approximately cancelled one another.

The unfavourable balance on non-merchandise trade with the United Kingdom, which increased \$8 million to \$130 million, continued to originate mainly from interest and dividends, travel, government expenditures and personal remittances. An extension in 1959 of the declining tendency evident in the past several years in the surplus on freight and shipping and increases in net payments for travel and on income account were compensated by larger transfers of legacies and immigrants' funds, smaller defence expenditures in the United Kingdom and the non-recurrence in 1959 of special government tax refunds.

The sharpest change in the bilateral pattern of trade in 1959 took place in the case of the "other countries", whose current account deficit jumped \$217 million from \$59 million to \$276 million. Most of this rise with this group of countries was concentrated in merchandise trade, where there was a turnaround of \$178 million from a surplus of \$128 million to a deficit of \$50 million. This singular development resulted from a decline of \$33 million in exports combined with a rise in imports of \$145 million. Within the "other countries" group, the change was focussed on the OEEC countries and their dependent territories, whose commodity surplus dropped about \$150 million to an estimated amount of \$40 million, and to a lesser degree on the rest of the Sterling Area, whose visible surplus was nearly halved from \$87 million to \$46 million. In contrast, the trade deficit for the residual group of countries declined from approximately \$150 million to about \$135 million, with exports growing more than imports.

Summary of Current Account Balances between Canada  
and the Principal Countries and Areas, 1950 - 1959

<u>Country or area</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>Change in 1959</u>
	(millions of dollars)										
United States	-400	-951	-849	-904	-807	-1,035	-1,639	-1,568	-1,134	-1,236	-102
United Kingdom	+ 24	+223	+388	+133	+229	+ 330	+ 252	+ 138	+ 108	+ 52	- 56
Other Sterling Area	- 23	- 24	+114	+ 83	+ 44	+ 60	+ 48	+ 9	+ 65	+ 12	- 53
Other OEEC countries and overseas territories	+108	+223	+332	+173	+ 93	+ 24	+ 17	+ 21	+ 13	- 149	-162
Other Countries	- 43	+ 12	+179	+ 72	+ 9	- 77	- 44	- 24	- 137	- 139	- 2
All Countries	-334	-517	+164	-443	-432	- 698	-1,366	-1,424	-1,085	-1,460	-375

Merchandise exports to the OEEC countries fell \$72 million, while imports from this group advanced a little more. The fact that the large special exports of military aircraft to Germany and Belgium were not maintained in 1959 more than accounted for the whole loss. Taking the group as a whole, other commodities whose export was lower in 1959 comprised wheat, seeds, semi-processed iron products and copper ingots. Exports increased in the cases of aluminum in primary forms, nickel, milled asbestos fibres, drugs and chemicals. The substantial growth in imports was accounted for partly by commodities such as passenger automobiles and other consumer goods, rolling mill products and other industrial materials. As there was a large deficit from non-merchandise transactions with the OEEC countries a substantial current account deficit with the area estimated at \$149 million resulted in contrast to surpluses characteristic in earlier years.

Increases in merchandise exports to other countries included an amount of \$35 million to Japan, \$15 million to Poland, and smaller amounts to Czechoslovakia and Iraq, while exports to Brazil, the U.S.S.R. and China declined moderately. Export gains to Japan comprised among other commodities wheat, wheat flour, seeds, pulp, metals and minerals, while increases to Poland were largely represented by wheat, barley, seeds, hides and aluminum. Increases in imports from Japan were estimated to be of a somewhat smaller magnitude than those for exports. Rising imports from Mexico, El Salvador, Ecuador, Peru and Panama were in total offset by lower imports from Venezuela, Cuba and Honduras. Imports from Iran were substantially more and those from Arabia tended to be higher.

Capital movements

Movements of capital for direct investment, portfolio stocks and bonds, and official loans and long-term investments, were somewhat larger in total than in 1958 but their growth failed to keep pace with Canada's rising deficit on current account. As a result they were adequate to finance only



71 per cent of the deficit on current account in 1959, compared with 93 per cent in 1958. Canada incurred a deficit on current account in nine of the fourteen years since World War II. Only in 1955 was a lower percentage than in 1959 met by net capital inflows in the long-term forms mentioned. That year the deficit was less than half the size it was in 1959, and the capital inflow in short-term and miscellaneous forms was smaller in amount than in 1959.

In general, the seasonal pattern characteristic of recent years continued. More than half of the current account deficit, but relatively less of the capital inflow in the long-term forms, occurred in the first half of the year. The relative difference increased in 1959 compared with 1958 and 1957. In 1959 some 59 per cent of the current account deficit occurred in the first half, while 49 per cent of the inflows in long-term forms occurred in this period. In 1958, 55 per cent of the deficit and 53 per cent of the capital inflows in long-term forms occurred in the first half, and the relative difference was smaller than in most recent years.

Capital inflows taking the form of increases in the outstanding net external long-term debt of the various levels of government in Canada rose again in 1959 both in absolute terms and relatively. At the same time, despite the greatly increased current account deficit, the net inflows in other long-term forms, mainly business investment, contracted. These trends have been characteristic of the Canadian balance of payments for several years and are shown clearly in the following table. (It may be noted that the figure for governments in 1959 takes account of the gold portion of Canada's increased quota in the International Monetary Fund; excluding that transaction, which was financed directly by a transfer from official holdings of gold regarded as short-term, the increase of net external long-term debt of governments would have been \$505 million.)

Changing Character of Capital Movements

	1955	1956	1957	1958	1959	1955	1956	1957	1958	1959
	(millions of dollars)					Percentage				
Transactions with non-residents affecting:										
Net external long-term debt of Canadian governments(1)	- 173	291	217	323	446	- 25	21	15	30	30
Foreign direct and portfolio investment in Canadian concerns	614	1,082	1,104	734	676	88	79	77	67	46
Canadian long-term investments abroad excluding investments by governments (increase,-)	- 80	- 102	- 62	- 45	- 81	- 11	- 7	- 4	- 4	- 5
Other external liabilities, net	337	95	165	73	419	48	7	12	7	29
Total capital inflow	698	1,366	1,424	1,085	1,460	100	100	100	100	100

(1) Increase in holdings by non-residents of Government of Canada, provincial and municipal bonds, less net repayments on intergovernmental loans and subscriptions in gold and foreign currencies to international financial organizations.

Geographically about 80 per cent of the net capital inflows in long-term forms during 1959 came from the United States.(1) In amount as well as in percentage terms this was about the same as in 1958. Net inflows from the United Kingdom represented about 10 per cent of the movement in 1959 compared with about 15 per cent in 1958. The change reflected on balance two developments, the completion in 1958 of repayments of the Canadian loan of 1942, and unusually large outflows from Canada in 1959 for direct investment in the United Kingdom. Net inflows in long-term forms from other overseas countries, on the other hand, were larger in 1959 for both direct and portfolio security investments, and there were no large extensions of intergovernmental loans. As a result the amount and the proportion of the net long-term inflow attributable to these countries rose sharply.(2)

(1) Canada's increased quota in the International Monetary Fund has not been regarded as a transaction with the United States in this calculation.

(2) The preceding paragraphs distinguish only the long-term types of movement listed; there are normally some movements in other long-term forms included in "other capital movements", details of which are not yet available for 1959.



The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1959 is estimated to have totalled \$500 million. This compares with a revised figure of \$420 million for 1958. It was exceeded only in 1957, and in 1956 when a record of \$583 million was established. Some special factors contributed to the high level in 1959, and must be taken into consideration in assessing its significance.

Capital movements for direct investment include a great variety of transactions, large and small, inwards and outwards, recurring and non-recurring. They include funds to finance capital formation in Canada involving the use of Canadian labour, machinery and equipment. They include the financing of machinery and equipment imported from outside of Canada, ranging from small components to massive installations of custom built equipment. They include the acquisition from residents of existing assets, such as land, or buildings, or going concerns. They include the provision of working capital to finance inventory accumulation, receivables from customers, etc. The net movement in 1959 reflected all of these things. A few undertakings accounted for some \$200 million of the total, half covering non-recurring transactions, and half the peak level of some major developments. While some parent companies were supplying additional capital to finance expansion in Canada, others found that the funds generated in Canada from earnings, depreciation, etc., were greater than their foreseeable needs in this country and there was some significant return of capital from Canada.

It is never possible to measure precisely the part of direct investment inflows devoted to new capital formation or investment in a physical sense. While some transfers occur specifically for the purpose of acquiring existing concerns, property, etc., others represent only an additional source of financing for active companies which are constantly acquiring or disposing of existing interests, or are shifting the nature of their financial liabilities, from one form to another, in accordance with changing circumstances. Despite difficulties of measurement, there is evidence that most if not all of the increased net movement to Canada in 1959 of foreign direct investment capital was of this special character.

Geographically nearly three-quarters of the net movement is estimated to have been from the United States, with the remainder originating as to about two-thirds from the United Kingdom and one-third from other overseas countries. The largest part of the increase over 1958 was in net inflows from the United States, with a significant and relatively larger increase in the net movement from overseas countries other than the United Kingdom.

For the second successive year there was a reduction in the net inflow of foreign direct investment capital to the petroleum and natural gas industry in Canada. This no doubt reflected the moderation in rate of growth undertaken by the industry. However, the drop in inflows to the petroleum and natural gas industry was more than offset by increased inflows for mining. Some of the new major developments in mining probably reached in 1959 a peak level of capital expenditure. Together petroleum, natural gas and mining appear to have accounted for more than half the net movement. This was smaller than in 1958. About a quarter was represented by investment in manufacturing concerns, but a substantial part of it represented the purchase by non-residents of existing interests in the field of automobiles and sugar. Other significant inflows occurred for investment in financial concerns, property, etc.

The capital inflow for direct investment was about equal in the two halves of 1959, but the special transactions already referred to affected this timing. Excluding these, there appears to have been some increase in the rate of inflow in the last half of 1959.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$60 million in 1959, which compares with a revised estimate of \$48 million for 1958. As in the case of foreign direct investment in Canada, the net movement embraced a diverse mixture of transactions. Acquisitions and disposals of existing assets were, however, of relatively greater importance, among them being the purchase of manufacturing undertakings in the United Kingdom, and the sale of petroleum interests in the United States.

Portfolio security transactions were again by far the largest source of foreign capital in 1959, supplying an amount equivalent to 43 per cent of the deficit on current account. The net inflow of \$627 million, arising from nearly \$3,000 million of transactions, was slightly larger than the total of \$610 million recorded for 1958 but in that year the current account deficit was much smaller and security transactions led to an inflow equivalent to 56 per cent. Even larger amounts of capital were imported in this form in 1956 and 1957, and in the four year period the net capital inflow from security transactions has totalled \$2,727 million. Transactions in 1959 included net sales to non-residents of \$208 million of outstanding Canadian securities and \$662 million of new issues, offset by retirements of \$222 million of foreign-held Canadian securities. In the opposite direction there was a net capital export of \$21 million from all transactions by Canadians in foreign securities.

The figures for 1959 reveal increased reliance by Canada on foreign investors to supply portfolio security capital. The foreign savings made available to Canada through sale of Canadian stocks and bonds in 1959 were equivalent to about 40 per cent of the net new supply of such securities. In 1958, when the Government of Canada was a substantial borrower of funds in Canada, sales to non-residents were equivalent to about 19 per cent of the new supply. Excluding Government of Canada direct and guaranteed issues, the percentage in 1958 was 28. Non-resident acquisitions of securities of provincial and municipal governments and of corporations, taken as a group, were larger in 1959 than in 1958, notwithstanding the fact that the net new issues of such securities were smaller.

The overall movement of portfolio security capital in 1959 came 75 per cent from the United States, 6 per cent from the United Kingdom, and 19 per cent from other overseas countries. In 1958 the proportion from the United States was 87 per cent and that from the other overseas countries 7 per cent.

The capital inflow of \$208 million produced by trade in outstanding Canadian securities was the largest since 1950. It included on balance \$96 million of Canadian bonds and debentures and \$112 million of Canadian stocks. There were net sales of outstanding bonds and debentures in every month except one, and their total was also the largest since 1950. In 1958 there was no net movement from trading in bonds, and in 1957 trading resulted in a repurchase balance of \$45 million. Net sales to non-residents during 1959 of \$119 million of Government of Canada direct and guaranteed issues were offset to the extent of \$23 million by net repurchases of issues of other Canadian debtors, some of which may reflect transactions of sinking funds. The capital inflow of \$112 million produced by net sales to non-residents of outstanding Canadian common and preference stocks was larger than the figure of \$88 million recorded in 1958 but was smaller than in the other years since 1953. There were net sales of outstanding Canadian stocks in every month of 1959; in the past six years there have been only four months in which a sales balance did not occur.

Taken as a whole, trade in outstanding Canadian securities produced \$66 million in the first quarter of 1959, the largest quarterly balance since 1956. This fell to \$50 million in the second quarter, \$58 million in the third, and \$34 million in the last quarter of the year.

Canada received \$662 million from the sale of new issues of Canadian securities to non-residents in 1959. This represented a decrease of \$15 million compared with 1958, and was also smaller than for the two preceding years, although substantially larger than for earlier post-war years. Gross new corporate issues dropped to \$132 million, less than half the total for 1958, or about one-quarter of the level for the preceding year. In both 1957 and 1958, however, there was a significant volume of deliveries of pipe line bonds sold earlier. On the other hand sales to non-residents of new issues of governments rose to \$530 million in 1959, increasing by one-third over the previous year.

Retirements of foreign-held Canadian securities totalled \$222 million in 1959, compared with \$158 million in 1958. Much of the increase covered Government of Canada issues. This is the largest figure for retirements for many years. It is no doubt a reflection of the growing volume of funded debt outstanding in the hands of non-residents. Since retirements required by the operation of sinking funds may often be satisfied through the surrender of bonds acquired in the market, it may be surmised that in addition some current retirements took the form of repurchases of outstanding securities.

Transactions in foreign securities gave rise to a net capital outflow of \$21 million in 1959. There were net purchases by Canadians of \$18 million of outstanding foreign issues. The only other year since the end of World War II in which Canadians added to their holdings of foreign securities through purchases of outstanding issues was in 1948 when there was a net outflow of \$7 million. Net purchases occurred in each quarter of 1959 and largely represented, on balance, the purchase of foreign bonds. Canadians also purchased \$11 million of new issues of foreign securities but \$8 million of existing Canadian-owned issues were retired.

Additional comment and statistical detail on movements of portfolio capital, including quarterly figures classified by debtor and statistics covering sales contracts and deferred deliveries to United States residents of new issues of Canadian bonds, will be found in the DBS report "Sales and Purchases of Securities between Canada and Other Countries, December 1959, and Review of Security Trading during 1959" (DBS Catalogue No. 67-002).

Canadian aid abroad in 1959 in the form of loans to overseas governments consisted of \$1 million credit extended to Ceylon and to India to finance the purchase of Canadian wheat and flour. In the previous year credits totalling \$34 million were extended for this purpose. Repayments of principal on earlier intergovernmental loans totalled \$34 million, including amounts from the United Kingdom, Belgium, France, the Netherlands, and Norway; the repayment by Norway was the final payment on a loan of \$23 million made between 1945 and 1948. In 1958 repayments to Canada totalled \$64 million, but that total included \$30 million repaid on the loan of 1942 to the United Kingdom which had been fully repaid by the end of the year. In addition to the principal repayments Canada received



in 1959, \$33 million of interest on intergovernmental loans; this is a part of the item in the current account covering Canada's receipts from interest and dividends.

Summary of Capital Movements, 1956 to 1959

(millions of dollars)

	1956	1957	1958	1959	Change in movement 1959 from 1958
Direct investment in Canada	+ 583	+ 514	+ 420	+ 500	+ 80
Direct investment abroad	- 104	- 68	- 48	- 60	- 12
Canadian securities:					
Trade in outstanding bonds	+ 11	- 45	-	+ 96	+ 96
Trade in outstanding stocks	+ 188	+ 137	+ 88	+ 112	+ 24
New issues	+ 667	+ 798	+ 677	+ 662	- 15
Retirements	- 141	- 133	- 158	- 222	- 64
Foreign securities	+ 2	+ 6	+ 3	- 21	- 24
Loans by Government of Canada:					
Drawings	-	-	- 34	- 1	+ 33
Repayments	+ 69	+ 50	+ 64	+ 34	- 30
Subscriptions in gold and U.S. dollars to IFC and IMF	- 4	-	-	- 59	- 59
Canadian dollars holdings of foreigners	- 24	- 35	+ 106	+ 13	- 93
Official holdings of gold and foreign exchange (increase, -)	- 33	+ 105	- 109	+ 70	+ 179
Other capital movements	+ 152	+ 95	+ 76	+ 336	+ 260
Net capital movement financing current account deficit	+1,366	+1,424	+1,085	+1,460	+ 375

During the year an amendment to the Bretton Woods Agreements Act was passed providing for an increase in Canada's quota in the International Monetary Fund and subscription to the International Bank for Reconstruction and Development. There were general increases of 50 per cent in the quotas for the IMF and of 100 per cent in the subscriptions to the IBRD. Canada was among the countries for which special increases exceeding these percentages were recommended. As a result, Canada's quota in the IMF was raised from \$300 million to \$550 million, and its subscription to the IBRD from \$325 million to \$750 million, all of these amounts being expressed in United States funds. The increased quota for IMF involved the payment of U.S. \$62.5 million in gold, and U.S. \$187.5 million in Canadian funds. A capital outflow of \$59 million appears in the balance of payments in the fourth quarter, representing the Canadian dollar equivalent of the payment in gold. (The impact of this payment on Canada's official holdings of gold and foreign exchange is a capital inflow in that item). Since it has been the practice to record quota and subscription payments in Canadian funds to these institutions, with changes in short-term Canadian dollar holdings by them, in the item "other capital movements" the payment in Canadian dollars to the IMF has no immediate effect on the balance of payments statement. Canada's increased subscription to the IBRD will involve payment of \$1 million in gold or United States dollars, and \$9 million in Canadian funds, with the remainder of \$415 million to remain on call to serve as an increased guarantee of IBRD obligations; this transaction had not been completed at the end of 1959.



Canadian dollar holdings by non-residents are estimated to have risen by \$13 million over the year as a whole. There were, however, much more significant changes over the course of the year. A decline of \$12 million in the first quarter of the year was followed by increases of \$46 million and \$22 million in the second and third quarters respectively. These capital inflows were reversed as to \$43 million in the final quarter of the year. Transactions by non-residents in Canadian Treasury Bills were an important contributor to these changes. During the year non-residents purchased \$369 million of these instruments. Most matured or were repurchased by Canadians during the year, and net holdings by non-residents rose by only \$14 million. In the five months from April to August, however, there occurred a net capital inflow of \$89 million for the purchase of bills, followed by a net outflow of \$75 million in the succeeding four months. On a quarterly basis there were inflows of \$63 million and \$1 million in the second and third quarters, and an outflow of \$50 million in the final quarter. Further details and discussion on interest arbitrage movements of capital will be found in the report "Sales and Purchases of Securities Between Canada and Other Countries, December 1959, and Review of Security Trading during 1959."

There was a net capital inflow of \$70 million in 1959 reflecting changes in Canada's official holdings of gold and foreign exchange. An inflow of \$49 million in the first quarter through a reduction of official holdings was followed by outflows of \$43 million and \$3 million as holdings were increased in the second and third quarters. There followed an inflow of \$67 million in the final quarter of the year. As has been seen \$59 million of this reflected the reduction of holdings resulting from payment of Canada's increased quota in the International Monetary Fund. This quota might be regarded as a second line of reserve. Official holdings of gold and United States dollars fell from \$1,939.1 million, expressed in United States funds, at the beginning of the year, to \$1,869.2 million at the end. The highest level of month-end holdings was reached in September when the total was \$1,938.3 million.

The category "other capital movements" shows a net inflow totalling \$336 million in 1959. The year was the first in the decade covered by official quarterly estimates of the capital account in which inflows appeared each quarter in this item, although in 1952, when special influences were at work, there were recurrent outflows. While some components of the category in 1959 have been identified, a substantial part represents the balancing item between the estimates at this time of the current account deficit and measured capital inflows. Available quarterly measures of many short-term receivables and payables and of international banking movements are limited in concept or coverage, and it is possible now only to surmise the significance of the large balance in 1959. Among the measured components there appears to have been a large outflow in the last half of the year to cover increased holdings of foreign exchange by Canadians. There were inflows of the order of \$65 million in the form of borrowings by Canadian finance and loan companies, largely in the latter part of the year, and there was also evidence of a significant increase in short-term Canadian commercial indebtedness in the final quarter.

The Canadian dollar continued to be in strong demand in the world's exchange markets in 1959. The price of the United States dollar in Canada fell from 96.44 cents at the end of 1958 to 95.22 cents at the end of 1959, the lowest year-end quotation for many decades. It moved through a high of 98.19 cents in February and a low of 94.56 cents in November, a trading range which was slightly wider than in 1958. In general the exchange value of the United States dollar in Canada rose until mid-February, then declined for more than eight months. A sharp rise of about one cent occurred in mid-November but was not sustained. The average noon rates from March to October were each lower than for the preceding month. The successive quarterly averages were 97.05 cents, 96.17 cents, 95.45 cents and 94.97 cents. The noon average for the year as a whole of 95.90 cents compared with 97.06 cents in 1958, and was about the same as in 1957.

#### Balance of indebtedness

Canada's net balance of international indebtedness is estimated to have risen from \$13.5 billion at the end of 1958 to about \$15.4 billion at the end of 1959. At this figure, it has more than doubled in the last five years, tripled in the last seven years, and quadrupled in the decade. The increase reflects not only the movements of capital which served to finance Canada's current account deficit, but also the retained earnings on both direct and portfolio investment, in Canada and abroad, and the effects of migration, exchange rate and other valuation changes, etc. Canada's gross liabilities were \$24.0 billion at the end of 1959. This amount included \$11.9 billion of foreign direct investment in Canada and \$8.7 billion of other foreign long-term investment in Canada, a total of \$20.6 billion for foreign long-term investment in Canada, as well as \$3.4 billion of other liabilities such as the equity of non-residents in Canadian assets abroad and short-term liabilities of various sorts. Canada's gross external assets of \$8.6 billion included \$3.3 billion of private long-term investments abroad, \$2.1 billion of Government loans and subscriptions to international financial organizations, and \$3.2 billion of other short-term assets including official holdings of gold and foreign exchange, private and banking holdings of foreign exchange, and receivables.

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1959 are preliminary and

		1957	1958			
		IV	I	II	III	IV
<b>A</b>	<b>Current Receipts</b>					
1	Merchandise exports (adjusted) .....	1,284	1,088	1,277	1,218	1,307
3	Gold production available for export .....	50	44	39	39	38
4	Travel expenditures .....	59	32	76	186	55
5	Interest and dividends .....	58	31	34	29	72
6	Freight and shipping .....	103	98	102	98	103
7	Inheritances and immigrants' funds .....	23	18	27	26	20
11	All other current receipts .....	85	94	88	85	99
12	<b>Total Current Receipts</b> .....	<b>1,662</b>	<b>1,405</b>	<b>1,643</b>	<b>1,681</b>	<b>1,694</b>
<b>B</b>	<b>Current Payments</b>					
1	Merchandise imports (adjusted) .....	1,292	1,151	1,354	1,206	1,349
4	Travel expenditures .....	105	100	140	191	111
5	Interest and dividends .....	173	116	133	141	196
6	Freight and shipping .....	120	95	114	127	124
7	Inheritances and emigrants' funds .....	44	29	36	39	41
9	Official contributions .....	17	11	16	12	11
11	All other current payments .....	164	170	173	163	159
12	<b>Total Current Payments</b> .....	<b>1,915</b>	<b>1,672</b>	<b>1,966</b>	<b>1,879</b>	<b>1,991</b>
	Balance on Merchandise Trade .....	- 8	- 63	- 77	+ 12	- 42
	Balance on Other Transactions, excluding B 9 .....	- 228	- 193	- 230	- 198	- 244
	Official Contributions .....	- 17	- 11	- 16	- 12	- 11
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 253</b>	<b>- 267</b>	<b>- 323</b>	<b>- 198</b>	<b>- 297</b>
<b>D</b>	<b>Capital Account</b>					
	Direct Investment					
1	Direct investment in Canada .....	+ 128	+ 93	+ 94	+ 103	+ 130
2	Direct investment abroad .....	- 8	- 20	- 23	+ 6	- 11
	Canadian Securities					
3a	Trade in outstanding bonds and debentures .....	- 16	- 2	- 12	- 7	+ 21
3b	Trade in outstanding common and preference stocks .....	+ 6	+ 3	+ 17	+ 35	+ 33
4	New issues .....	+ 85	+ 179	+ 295	+ 102	+ 101
5	Retirements .....	- 30	- 30	- 50	- 27	- 51
	Foreign Securities					
6	Trade in outstanding issues .....	+ 8	+ 4	- 1	+ 3	+ 7
7	New issues .....	- 7	- 4	- 7	- 2	- 4
8	Retirements .....	+ 2	+ 2	+ 1	+ 2	+ 2
	Loans by Government of Canada					
9	Drawings .....	-	- 16	- 8	-	- 10
10,11	Repayments .....	+ 17	+ 7	+ 17	+ 7	+ 33
13	Subscriptions in gold and U.S. dollars to IBRD, IFC and IMF .....	-	-	-	-	-
14	Change in Canadian dollar holdings of foreigners .....	+ 18	- 16	+ 41	+ 90	- 9
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 61	- 39	- 52	+ 32	- 50
17	Other capital movements .....	- 11	+ 106	+ 11	- 146	+ 105
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 253</b>	<b>+ 267</b>	<b>+ 323</b>	<b>+ 198</b>	<b>+ 297</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-

B 11) actions, and business services.



# BALANCE OF INTERNATIONAL PAYMENTS

data for 1958 are subject to revision.

1959				Annual Totals				
I	II	III	IV	1956	1957	1958	1959	
(millions of dollars)								
1,061	1,355	1,286	1,450	4,837	4,909	4,890	5,152	A
37	40	33	37	150	147	160	147	1
33	87	222	55	337	363	349	397	3
27	41	37	65	142	154	166	170	4
98	110	98	105	457	445	401	411	5
18	29	31	22	99	124	91	100	6
91	94	103	92	442	388	366	380	7
								11
1,365	1,756	1,810	1,826	6,464	6,530	6,423	6,757	12
1,215	1,545	1,364	1,414	5,565	5,488	5,060	5,538	B
117	140	213	119	498	525	542	589	1
136	156	149	215	523	587	586	656	4
98	128	141	139	502	515	460	506	5
31	39	42	43	115	157	145	155	6
9	22	22	18	30	37	50	71	7
170	173	178	181	597	645	665	702	9
								11
1,776	2,203	2,109	2,129	7,830	7,954	7,508	8,217	12
- 154	- 190	- 78	+ 36	- 728	- 579	- 170	- 386	
- 248	- 235	- 199	- 321	- 608	- 808	- 865	-1,003	
- 9	- 22	- 22	- 18	- 30	- 37	- 50	- 71	
- 411	- 447	- 299	- 303	-1,366	-1,424	-1,085	-1,460	C
+ 80	+ 170	+ 85	+ 165	+ 583	+ 514	+ 420	+ 500	D
- 20	- 10	- 20	- 10	- 104	- 68	- 48	- 60	1
								2
+ 34	+ 16	+ 33	+ 13	+ 11	- 45	-	+ 96	3a
+ 32	+ 34	+ 25	+ 21	+ 188	+ 137	+ 88	+ 112	3b
+ 178	+ 108	+ 205	+ 171	+ 667	+ 798	+ 677	+ 662	4
- 37	- 73	- 54	- 58	- 141	- 133	- 158	- 222	5
- 1	- 9	- 4	- 4	+ 20	+ 24	+ 13	- 18	6
- 2	- 2	- 1	- 6	- 18	- 24	- 17	- 11	7
+ 2	+ 2	+ 2	+ 2	-	+ 6	+ 7	+ 8	8
- 1	-	-	-	-	-	- 34	- 1	9
-	+ 9	-	+ 25	+ 69	+ 50	+ 64	+ 34	10,11
-	-	-	- 59	- 4	-	-	- 59	13
- 12	+ 46	+ 22	- 43	- 24	- 35	+ 106	+ 13	14
+ 49	- 43	- 3	+ 67	- 33	+ 105	- 109	+ 70	16
+ 109	+ 199	+ 9	+ 19	+ 152	+ 95	+ 76	+ 336	17
+ 411	+ 447	+ 299	+ 303	+1,366	+1,424	+1,085	+1,460	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.



The Canadian Balance of International Indebtedness

(Billions of dollars)

	<u>1945</u>	<u>1949</u>	<u>1952</u>	<u>1954</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
<u>Canadian Liabilities</u>							
Non-resident owned long-term investments in Canada:							
Direct	2.7	3.6	5.2	6.8	10.1	11.0	11.9
Other	4.4	4.4	5.2	5.7	7.4	8.1	8.7
Total	7.1	8.0	10.4	12.5	17.5	19.1	20.6
Other liabilities	0.9	1.3	1.5	1.6	2.4	2.6	3.4
Gross liabilities	8.0	9.3	11.9	14.1	19.9	21.7	24.0
<u>Canadian Assets</u>							
Canadian long-term investments abroad:							
Private	1.3	1.5	2.1	2.5	3.2	3.2	3.3
Government of Canada	0.7	2.4	2.3	2.1	1.9	1.9	2.1
Total	2.0	4.0	4.4	4.6	5.0	5.0	5.4
Official holdings of gold and foreign exchange	1.7	1.2	1.8	1.9	1.8	1.9	1.8
Other assets	0.2	0.3	0.6	0.8	1.2	1.2	1.4
Gross assets	4.0	5.5	6.7	7.2	8.1	8.2	8.6
<u>Canadian net international indebtedness</u>	4.0	3.8	5.1	6.8	11.9	13.5	15.4

Private long-term investments abroad include a substantial equity of non-residents through their ownership of Canadian companies; this equity is included among "other" liabilities. Data for 1958 and 1959 are preliminary.









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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FIRST QUARTER, 1960

In the first quarter of 1960 the imbalance from Canada's current transactions in goods and services with other countries of \$318 million was less than that of \$415 million in this same quarter of 1959. The reduction in the size of this current deficit was entirely from the smaller import balance on merchandise account which fell from \$154 million to \$46 million as exports rose more than imports. The deficit from other current transactions rose to \$263 million from \$252 million and official contributions remained at the same level of \$9 million in both years.

Capital inflows for long-term investment considerably exceeded the size of the current account deficit in 1960 being substantially higher than in any other first quarter. This contrasts with the first quarter of 1959 when long-term capital inflows were significantly less than the current deficit, being supplemented by substantial short-term inflows.

Reduction in import balance on merchandise trade

The reduction in the import balance from merchandise trade in the first quarter of 1960 compared with the same period of 1959 was due to a greater rise in exports from the relatively low level in the first quarter of 1959 than occurred in imports. The rise in exports was 21 per cent compared with a gain of 9 per cent in imports.

Increased export shipments to both the United States and overseas markets occurred in the first quarter of 1960 compared with the same period of 1959, which was the lowest level in that year. The sharpest relative gains have been to overseas countries and although the increase in exports to the United States made up more than half of the total increase, the United States share of exports was reduced to slightly less than 60 per cent. The principal gains in exports were in metals and forest products with particularly large rises in shipments of steel, copper, nickel and aluminum. Other major exports which were also much heavier than in the previous year included uranium, pulp and paper, and lumber. Most leading markets took more Canadian exports than in the previous year. Among overseas countries showing particularly large gains were the United Kingdom, most countries of Western Europe, Australia, Japan, and Poland. Exceptions to this trend include Latin America and Commonwealth countries in Asia.

The rise in imports was widely distributed both as to countries of origin and commodity composition. The largest increases occurred in purchases from the United States, United Kingdom, and the rest of the Commonwealth. Further substantial increases appeared in imports of automobiles and other rises were spread among industrial materials and machinery and equipment. Among leading exceptions to this trend were petroleum and some agricultural commodities.

Deficit from transactions in services and other non-merchandise items

The deficit in the opening quarter of 1960 on non-merchandise transactions estimated at \$272 million was slightly above that of \$261 million for the first three months of 1959, but nearly 14 per cent under the high fourth quarter deficit of \$315 million. In recent years the fourth quarter has been the period when the widest imbalance from these transactions has occurred. At \$272 million in 1960 this deficit is larger than in any other first quarter and compares with \$78 million a decade earlier in the first quarter of 1950.

The rise in the deficit from these transactions in comparison with the same period of 1959 resulted from larger net payments on freight account, in transfers of migrants' funds and on all other current invisible transactions. With respect to the first two components, payments increased more than receipts. In the case of all other current transactions, Canadian defence expenditures overseas were higher in the first quarter of 1960, while net payments for business services and for personal remittances advanced moderately.

The three components which moved to narrow the deficit on non-merchandise transactions were the travel and income accounts and gold production available for export. The decline in travel expenditures abroad by Canadians from \$118 million to \$111 million was influenced by the incidence of Easter in the month of March in 1959 upon Canadian expenditures in the United States. The deficit on income account, which declined from \$111 million in the three months of 1959 to \$106 million in the first quarter of 1960, was the result of an increase from \$30 million to \$36 million in the receipts, offset partially by a rise of \$1 million to \$142 million in the payments. Larger receipts were for the most part attributable to higher yields on United States short-term securities. A \$5 million rise to \$50 million in interest payments largely reflected Canadian borrowing in the preceding year through sales of new bond issues in the United States. A small decline in dividend payments abroad was mainly caused by the absence of transfers or smaller remittances in the first quarter by a number of large subsidiaries in the manufacturing industry to parent companies in the United States.

#### Transactions by areas

Each of the three major areas shown in the table (on this page) contributed to the narrowing in the current account deficit from \$415 million in the first quarter of 1959 to \$318 million in the same period of 1960; and most of this occurred through improvements in the merchandise trade balances of the respective areas.

A reduction of \$47 million in the current account deficit with the United States from \$392 million to \$345 million in the three months of 1960 was distributed \$39 million to merchandise trade and \$8 million to "invisible" items. The improvement in the merchandise import balance was the net effect of a rise of \$117 million, or 18 per cent, in exports and that of 9 per cent in imports. In comparison with the first quarter of 1959, substantial increases were recorded in shipments to the United States of newsprint, pulp, lumber, fabricated steel, copper, nickel, uranium and petroleum. Gains were indicated in the imports of machinery and electrical apparatus, structural materials, cotton and products. Most of the references made above in dealing with non-merchandise transactions with all countries on travel and income accounts and business service payments are pertinent to explaining the moderate reduction in the non-merchandise deficit with the United States.

The surplus with the United Kingdom increased from \$12 million to \$26 million in the quarter under review. As the deficit on the "invisible" items was maintained at \$41 million the improvement in the current account balance was the net result of an increase of \$46 million in merchandise exports and that of \$32 million in imports. Larger shipments to the United Kingdom covered commodities such as lumber, newsprint, base metals and plastics, while exports of grain were smaller. Larger imports of automobiles were prominent among the gains in imports.

A swing of \$36 million for Other Countries from a current deficit of \$35 million to a surplus of \$1 million was made up of improvements of approximately \$10 million and \$35 million with the OEEC group and other foreign countries, respectively, which were only partly counterbalanced by a \$9 million reduction in the surplus with the Rest of the Sterling Area. The decline in current account surplus with the Rest of the Sterling Area resulted from a larger increase in imports than in exports together with a slightly higher non-merchandise imbalance. With respect to the OEEC countries an increase of \$24 million, or about 25 per cent, in exports was in part offset by smaller increases in imports and in the deficit from non-merchandise transactions. The current account deficit with the remaining countries was reduced sharply following a \$30 million increase in exports, most of which was to Japan and Poland. This was accompanied by a smaller decline in imports, including petroleum, offset in part by a moderate growth in the imbalance from non-merchandise trade.

#### SUMMARY OF CURRENT TRANSACTIONS WITH THE UNITED STATES, UNITED KINGDOM AND OTHER COUNTRIES FIRST QUARTER 1959 AND 1960.

	<u>All Countries</u>		<u>United States</u>		<u>United Kingdom</u>		<u>Other Countries</u>	
	1959	1960	1959	1960	1959	1960	1959	1960
Merchandise exports (adjusted)	1,061	1,284	652	769	163	209	246	30
Merchandise imports (adjusted)	1,215	1,330	867	945	110	142	238	24
Balance on merchandise trade	- 154	- 46	- 215	- 176	+ 53	+ 67	+ 8	+ 6
Balance on non-merchandise trade	- 261	- 272	- 177	- 169	- 41	- 41	- 43	- 6
Current account balance	- 415	- 318	- 392	- 345	+ 12	+ 26	- 35	+



## Capital movements

Capital movements in such long-term forms as direct investment and portfolio security transactions led to a net capital inflow of \$380 million in the first quarter. This was about a fifth greater than the current account deficit. In the first quarter of 1959 the inflows in such long-term forms totalled \$262 million equivalent to about two-thirds of the larger current account deficit incurred in that period. The other capital movements in the first quarter of 1960, mainly in short-term forms, amounted on balance to a capital outflow of \$62 million. An outflow from this category of transactions has not previously occurred in the first quarter since 1954.

The net movement of foreign capital into Canada for direct investment in foreign-controlled enterprises during the quarter is tentatively placed at \$175 million. This is more than double the figure for the corresponding quarter of 1959, and nearly half as large again as in 1956 when first quarter inflows were at their earlier high level. Inflows to the petroleum and natural gas industry, and to mining accounted for about two-thirds of the net movement. Inflows to manufacturing accounted for about a quarter of the total. Included in each of these groups were some movements for the acquisition of existing investments from residents of Canada.

The net movement of Canadian capital for direct investment abroad during the quarter is tentatively estimated as an outflow of \$5 million.

Transactions in Canadian portfolio securities brought \$200 million into Canada in the quarter. This compared with \$158 million in the final quarter of 1959 and \$208 million in the first quarter of that year. It included net sales to non-residents of \$20 million of outstanding Canadian bonds and debentures, \$13 million of outstanding Canadian common and preference stocks, and \$203 million of Canadian new issues, offset to the extent of \$36 million by the retirement of foreign-held Canadian debt. Sales to non-residents of new issues of provincial governments fell sharply from the earlier periods, but sales of new municipal issues rose to their highest level for many years. Sales to non-residents of new issues of corporate bonds and debentures rose from \$34 million in the fourth quarter of 1959 to \$72 million in the quarter under review. The first quarter figure compared with \$112 million for the whole of 1959 and was the highest since the second quarter of 1958. Nearly half the total for the first quarter represented issues of companies engaged in the financing of consumer durables.

Transactions in foreign securities led to a net capital inflow in the first quarter of \$10 million. On balance this movement reflected the resale by Canadians of outstanding issues of United States stocks. During each quarter of 1959 Canadians added to their holdings of foreign securities.

There was a capital outflow of \$22 million during the quarter arising from reductions in Canadian dollar holdings of foreigners. Nearly half the decline was in holdings of Canadian treasury bills. Canada's official holdings of gold and foreign exchange fell moderately during the quarter, resulting in a capital inflow of \$11 million. Official holdings of gold and United States dollars, expressed in terms of United States currency, were \$1,856 million at the end of the quarter compared with \$1,869 million at the beginning. All other capital movements were outward, on balance, in the amount of \$51 million. This development was in sharp contrast to the results from 1956 to 1959 when inward movements in excess of \$100 million were indicated in the first quarter each year. A substantial part of the movement in the first quarter of 1960 reflects net repayments of short and long term debt by Canadian corporations, including industrial and financial companies. A part of these repayments was financed by new issues of Canadian securities sold to non-residents. Non-official holdings of foreign exchange do not appear to have changed significantly on balance during the quarter.

The exchange value of the Canadian dollar fell slightly during the first quarter. The price of the United States dollar in the Canadian exchange market rose from 95.22 cents to 95.78 cents, and the average noon rate of 95.18 cents compared with 94.97 cents for the final quarter of 1959. The trading range during the quarter was 0.87 cents.



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1960 are preliminary and

		1958			
		I	II	III	IV
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,084	1,277	1,219	1,307
3	Gold production available for export .....	44	39	39	38
4	Travel expenditures .....	32	76	186	55
5	Interest and dividends .....	31	38	29	70
6	Freight and shipping .....	98	102	98	103
7	Inheritances and immigrants' funds .....	18	27	26	26
11	All other current receipts .....	96	91	87	101
12	<b>Total Current Receipts</b> .....	<b>1,403</b>	<b>1,650</b>	<b>1,684</b>	<b>1,700</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,154	1,361	1,202	1,349
4	Travel expenditures .....	100	140	191	111
5	Interest and dividends .....	126	136	151	199
6	Freight and shipping .....	95	114	127	124
7	Inheritances and emigrants' funds .....	29	36	39	41
9	Official contributions .....	12	18	12	11
11	All other current payments .....	179	176	169	166
12	<b>Total Current Payments</b> .....	<b>1,695</b>	<b>1,981</b>	<b>1,891</b>	<b>2,001</b>
	Balance on Merchandise Trade .....	- 70	- 84	+ 17	- 42
	Balance on Other Transactions, excluding B 9 .....	- 210	- 229	- 212	- 248
	Official Contributions .....	- 12	- 18	- 12	- 11
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 292</b>	<b>- 331</b>	<b>- 207</b>	<b>- 301</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 93	+ 94	+ 103	+ 130
2	Direct investment abroad .....	- 20	- 23	+ 6	- 11
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 2	- 12	- 7	+ 21
3b	Trade in outstanding common and preference stocks .....	+ 3	+ 17	+ 35	+ 33
4	New issues .....	+ 179	+ 295	+ 102	+ 101
5	Retirements .....	- 30	- 50	- 27	- 51
	Foreign Securities				
6	Trade in outstanding issues .....	+ 4	- 1	+ 3	+ 7
7	New issues .....	- 4	- 7	- 2	- 4
8	Retirements .....	+ 2	+ 1	+ 2	+ 2
	Loans by Government of Canada				
9	Drawings .....	- 16	- 8	-	- 10
10,11	Repayments .....	+ 7	+ 17	+ 7	+ 33
13	Subscriptions in gold and U.S. dollars to IBRD, IFC and IMF .....	-	-	-	-
14	Change in Canadian dollar holdings of foreigners .....	- 16	+ 41	+ 90	- 9
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 39	- 52	+ 32	- 50
17	Other capital movements .....	+ 131	+ 19	- 137	+ 109
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 292</b>	<b>+ 331</b>	<b>+ 207</b>	<b>+ 301</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports of B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1959 are subject to revision.

1959				1960	Annual Totals		Four Quarters ending March 31, 1960		
I	II	III	IV	I	1957	1958	1959		
(millions of dollars)									
1,061	1,356	1,286	1,450	1,284	4,909	4,887	5,153	5,376	A
38	40	33	37	43	147	160	148	153	1
33	85	214	61	34	363	349	393	394	3
30	43	40	70	36	154	168	183	189	4
92	112	105	113	99	445	401	422	429	5
18	34	33	24	19	124	97	109	110	6
93	95	104	96	90	388	375	388	385	7
									11
1,365	1,765	1,815	1,851	1,605	6,530	6,437	6,796	7,036	12
1,215	1,540	1,367	1,411	1,330	5,488	5,066	5,533	5,648	B
118	141	214	120	111	525	542	593	586	1
141	151	150	214	142	587	612	656	657	4
95	130	145	142	109	515	460	512	526	5
31	39	42	42	36	157	145	154	159	6
9	21	22	19	9	37	53	71	71	7
171	176	180	179	186	645	690	706	721	9
									11
1,780	2,198	2,120	2,127	1,923	7,954	7,568	8,225	8,368	12
- 154	- 184	- 81	+ 39	- 46	- 579	- 179	- 380	- 272	
- 252	- 228	- 202	- 296	- 263	- 808	- 899	- 978	- 989	
- 9	- 21	- 22	- 19	- 9	- 37	- 53	- 71	- 71	
- 415	- 433	- 305	- 276	- 318	-1,424	-1,131	-1,429	-1,332	C
+ 80	+ 170	+ 85	+ 165	+ 175	+ 514	+ 420	+ 500	+ 595	D
- 20	- 10	- 20	- 10	- 5	- 68	- 48	- 60	- 45	1
									2
+ 33	+ 15	+ 33	+ 12	+ 20	- 45	-	+ 93	+ 80	3a
+ 32	+ 33	+ 25	+ 19	+ 13	+ 137	+ 88	+ 109	+ 90	3b
+ 184	+ 109	+ 207	+ 194	+ 203	+ 798	+ 677	+ 694	+ 713	4
- 41	- 78	- 59	- 67	- 36	- 133	- 158	- 245	- 240	5
- 5	- 12	- 8	- 8	+ 10	+ 24	+ 13	- 33	- 18	6
- 3	- 2	- 1	- 7	- 2	- 24	- 17	- 13	- 12	7
+ 3	+ 2	+ 2	+ 3	+ 2	+ 6	+ 7	+ 10	+ 9	8
- 1	-	-	-	-	-	- 34	- 1	-	9
-	+ 9	-	+ 25	-	+ 50	+ 64	+ 34	+ 34	10,11
-	-	-	- 59	-	-	-	- 59	- 59	13
- 12	+ 46	+ 22	- 43	- 22	- 35	+ 106	+ 13	+ 3	14
+ 49	- 43	- 3	+ 67	+ 11	+ 105	- 109	+ 70	+ 32	16
+ 116	+ 194	+ 22	- 15	- 51	+ 95	+ 122	+ 317	+ 150	17
+ 415	+ 433	+ 305	+ 276	+ 318	+1,424	+1,131	+1,429	+1,332	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.











## DOMINION BUREAU OF STATISTICS

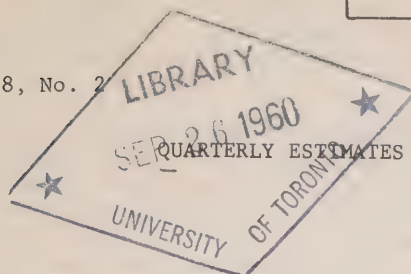
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QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

SECOND QUARTER 1960

Canada's current imbalance from transactions in goods and services with other countries rose in the second quarter of 1960 to \$471 million from \$315 million in the first quarter. At this level the current deficit was higher than in any quarter since the second quarter 1957 when it reached \$545 million. In the half year, however, this imbalance of \$786 million was less than the \$848 million in the first half of 1959 because of the lower level of the deficit in the first quarter this year. The level in the half year was also considerably below that in the first half of 1957.

The largest part of the rise from the first to the second quarter this year was due to a fourfold rise in the import balance on merchandise trade. But part also resulted from a larger deficit from non-merchandise transactions which made up well over half of the deficit in the quarter. And in comparison with the second quarter in 1959 the rise was entirely from the larger deficit from non-merchandise transactions which also was some 10 per cent higher than in 1959 in the half year comparison. The imbalance from non-merchandise transactions was greater in the quarter for each group of transactions with the exception of official contributions. In the half year too, the larger imbalance originated in most groups of transactions, the only exceptions being official contributions and new gold production available for export.

Among factors influencing the balance of payments in the half year were a coincidence of unusually strong demands from overseas countries for Canadian industrial materials and the maintenance of export totals to the United States at generally high levels in most of the period combined with a moderating in the upward trend in Canadian imports which has been characteristic of recent years. At the same time the deficit from non-merchandise transactions has continued to grow with a rising balance of indebtedness to other countries and high incomes in Canada. And inflows of capital into Canada in long-term forms in the half year were substantially higher than last year as is described later in this publication.

Rise in import balance on merchandise trade

In the second quarter the import balance on merchandise account grew rapidly to \$179 million from the unusually low balance of \$43 million in the first quarter. The import balance from the United States was appreciably larger than in the first quarter while the export balance with overseas countries was about half the size of that in the first quarter. In comparison with the previous year the import balance in the second quarter was still slightly less with both exports and imports being somewhat lower.

In the case of exports the decline in the total to the United States in the second quarter was greater than the rise overseas. There were sharp declines in exports of wheat, uranium and farm machinery and slight drops in certain other major commodities which more than offset some gains in other commodities. Half year comparisons with last year in contrast show rises in both export and import totals due to the high levels of trade in the first quarter. The rise in exports was some 8 per cent and that in imports about 3 per cent. The import balance was consequently sharply reduced in the first half year from \$338 million to \$222 million. This change in balance originated in overseas trade particularly with the United Kingdom and Europe with substantial increases in exports which were especially heavy in the first quarter of the year when export trade is not usually in large volume.

Prepared in the Balance of Payments Section, International Trade Division.

7503-509-60



The increase in exports in the half year was largely concentrated in some leading metals, minerals, forest products and some manufactured goods like automobiles, engines, and textiles. Exports of agricultural products, fish, uranium and some manufactured goods like farm implements were less. In the case of exports to the United States much the same general pattern prevailed. Among the chief gain to that country were much larger sales of steel, copper, petroleum and moderate increases in pulp and paper. A substantial rise in exports to the United Kingdom was the result of much larger sales of forest products and metals as exports of wheat were lower.

The slight rise in imports in the half year of 1960 occurred in the first quarter as the totals from both the United States and overseas in the second quarter were less than in the previous year. The most prominent increases this year have been in automobiles, although there have also been increases in some industrial materials and equipment and in various other consumer goods. In the half year most of the increase was distributed among imports of manufactured goods from United States, United Kingdom and Europe. There was a decline in the total imported from other overseas countries which was influenced by a drop in petroleum along with declines in imports of some other commodities.

With marginal increases taking place both in export and import prices, the terms of Canada's commodity trade with other countries hardly changed between the first half of 1959 and 1960. Within the half year, however, the terms of trade improved in the first quarter as export prices rose while import prices dipped slightly, and deteriorated somewhat in the June quarter of 1960 when import prices advanced more than export prices.

#### Deficit from services and other non-merchandise items

The deficit from services and other non-merchandise transactions for the first half year was estimated at \$564 million, up \$54 million from that of \$510 million for the corresponding period of 1959; and represented over 70 per cent of the total deficit in the current period, as compared with 60 and 75 per cent for the first two quarters of 1959 and 1958, respectively. After allowance for normal seasonal fluctuations, this deficit from invisible transactions appeared to have remained at about the same level as that for the preceding half year, but about 10 per cent higher than the deficit for the first half of 1959. As in the same period of recent years, net payments on travel, income account and "all other current transactions" were the dominant sources of the imbalance in the "invisibles".

All the items, with the exception of official contributions, shared in the over-the-year rise in the current deficit, but the income account, migrants' funds and remittances and freight and shipping were responsible for about three-fourths of the change. In the first two cases, receipts declined slightly while payments rose more, and with respect to the freight account, payments gained more substantially than receipts. Bigger payments for freight and shipping services accrued from a larger volume of imports being transported by an increasing proportion of foreign bottoms; and smaller per capita transfers of capital by immigrants, particularly from the OEEC and "other countries" were reflected in lower receipts of immigrants' funds and inheritances in the first half of 1960. Fairly sizable increases in both receipts and expenditures occurred in the travel account, yielding a small net addition to the current deficit. Official contributions were lower by \$11 million, as wheat for relief of countries in South East Asia was not shipped in the period under review and contributions were also lower under the Colombo Plan.

#### Transactions by areas

The amelioration of \$62 million in Canada's current deficit from \$848 million in the first half of 1959 to \$786 million in the same period of the current year was the net result of a gain of \$29 million in the surplus with the United Kingdom, a \$69 million reduction in the deficit with Other Countries and an increase of \$36 million in the deficit with United States. As shown in the table, on the following page, the balance on merchandise trade improved substantially with the United Kingdom and particularly with Other Countries, while the deficit arising from non-merchandise transactions expanded with each of the three areas.

In the second quarter a current account deficit with overseas countries of \$21 million again appeared although this was less than in the same period last year. In the half year, however, there was a slight current surplus with overseas countries of \$7 million because of the surplus in the first quarter; and this compares with a current deficit of \$91 million in the half year in 1959.

Summary of Current Transactions with the  
United States, United Kingdom and Other Countries, 1959 and 1960  
and Change between the Periods

(millions of dollars)

	All Countries			United States			United Kingdom			Other Countries		
	1959	1960	Change	1959	1960	Change	1959	1960	Change	1959	1960	Change
Merchandise exports (adjusted)	1,356	1,323	- 33	853	766	- 87	202	231	+29	301	326	+25
Merchandise imports (adjusted)	1,540	1,502	- 38	1,038	1,009	- 29	172	174	+ 2	330	319	-11
Balance on merchandise trade	- 184	- 179	+ 5	- 185	- 243	- 58	+30	+57	+27	-29	+ 7	+36
Balance on non-merchandise trade	- 249	- 292	- 43	- 180	- 207	- 27	-24	-36	-12	-45	-49	- 4
Current account balance	- 433	- 471	- 38	- 365	- 450	- 85	+ 6	+21	+15	-74	-42	+32

Second Quarter

January to June

Merchandise exports (adjusted)	2,417	2,607	+190	1,505	1,535	+ 30	365	440	+75	547	632	+85
Merchandise imports (adjusted)	2,755	2,829	+ 74	1,905	1,952	+ 47	282	315	+33	568	562	- 6
Balance on merchandise trade	- 338	- 222	+116	- 400	- 417	- 17	+83	+125	+42	-21	+70	+91
Balance on non-merchandise trade	- 510	- 564	- 54	- 357	- 376	- 19	-65	-78	-13	-88	-110	-22
Current account balance	- 848	- 786	+ 62	- 757	- 793	- 36	+18	+47	+29	-109	-40	+69

With the United States the current account deficit of \$793 million for the first six months of 1960 was \$36 million higher than that of \$757 million for the same period of 1959; and this increase was distributed just about evenly between merchandise trade and "invisible" transactions. The modest rise occurring in the deficit on merchandise trade was from a smaller increase in exports of \$30 million than in imports of \$47 million in the first half of the current year. The proportion of Canadian merchandise exported to the United States declined from approximately 62 per cent to 59 per cent, while the proportion of imports remained steady at 69 per cent. Among the commodities whose export was higher in the first six months of 1960 were: newsprint, steel plates, sheets and strips, engines, copper ore, ingots, bars and billets, and crude petroleum. Shipments were lower, on the other hand, for cattle, agricultural implements, aluminum, nickel, and uranium. Largest gains in imports covered raw cotton and cotton fabrics, followed by commodities in the iron, steel and non-ferrous metal groups, while imports of non-metallic minerals recorded a decline.

With the exception of a decline in net expenditures for travel, the deficit from other items among non-merchandise transactions with the United States increased mostly by modest magnitudes. A bigger gain in expenditures by American tourists in Canada than in the corresponding spending by Canadians in the United States accounted for the decline in the travel deficit; and a more substantial increment to the deficit on migrants' funds and inheritances developed during the period under review.

With the United Kingdom there was a substantial increment to the current account surplus between the first half of 1959 and 1960. An expansion of \$75 million, or over 20 per cent, in commodity exports and a gain of \$33 million, or about 11 1/2 per cent, in imports, together with a rise of \$13 million in net payments on "invisible" transactions accounted for this. In this development the proportionate distribution of Canadian exports to the United Kingdom rose from 15 per cent to nearly 17 per cent, while that for imports increased from 10 per cent to 11 per cent. Fairly sizable gains occurred in shipments of lumber, pulp, newsprint, nickel, semi-fabricated steel and copper, and aluminum, while declines in exports were recorded for wheat and barley, canned salmon, and uranium. Passenger automobiles represented a large share of the increased imports. The \$13 million expansion in the deficit on non-merchandise trade was attributable to an increase in net payments on travel account and a shift from a small surplus to a deficit for freight and shipping services.

The current account balance with Other Countries improved markedly between the first half of 1959 and 1960 from a deficit of \$109 million to that of \$40 million. This developed from an advance of 15 1/2 per cent or \$85 million in exports and a slight reduction in imports, offset in part by an increase in net payments on non-merchandise transactions. Within the Other Countries group, over 60 per cent of the rise in exports flowed to the metropolitan OEEC countries, while the reduction in imports was wholly from the remaining countries, as imports from Rest of the Sterling Area and the OEEC were higher in the first half of 1960. Most of the deterioration in the balance on non-merchandise transactions occurred with the OEEC, while the deficit with Rest of the Sterling Area improved moderately due to the absence of donations in the current half year to countries of South East Asia of wheat for relief and slightly smaller contributions under the Colombo Plan.

Shipments to the OEEC during the first half of 1960 of primary aluminum, nickel and some other industrial materials were substantially higher than in the same period of 1959. Smaller increases took place in exports of semi-fabricated steel products, asbestos fibres, and engines and machines, while exports of wheat and seeds were lower. The increased deficit with the OEEC on "invisible" transactions issued from larger payments on travel and for the NATO infrastructure programme, particularly in the March quarter, and somewhat higher remittances combined with reduced receipts on income account.

Lower purchases of raw cotton from Mexico and of crude oil from Venezuela accounted for a fair share of the \$38 million decline in imports from countries other than the OEEC and the Rest of the Sterling Area in the Other Countries group.

#### Capital movements

Some of the underlying economic background to the quarter has already been indicated. Superimposed on these factors during the second quarter were international tensions in a number of areas, as well as some tendency for reappraisal of the economic outlook both in general and in particular areas of activity. And interacting with these influences which might have been expected to give rise to some shifts in flows of international capital was a high degree of uncertainty in the exchange market and changing conditions in the international money markets. All of these factors may have affected to a greater or less degree the flows of capital between Canada and other countries during the quarter. The outstanding feature of the capital account in the second quarter, however, was the magnitude and the comparative stability of long-term inflows of foreign capital to Canada, particularly for direct investment, and the high proportion which has continued for so long to be directed to



resource-based industries.

Capital movements in such long-term forms as direct investment, portfolio security transactions, and intergovernmental loans led to a net capital inflow of \$259 million in the second quarter. This included net inflows of \$160 million for foreign direct investment in Canada, and \$110 million for investment in Canadian securities, offset by net capital outflows of \$11 million from transactions affecting Canadian long-term assets abroad. In the previous quarter the net movement of \$383 million included \$185 million for foreign direct investment in Canada and \$199 million investment in Canadian securities, offset by a net outflow of \$1 million for investment abroad. The long-term inflows described were equivalent to 55 per cent of the deficit on current account in the second quarter, a slightly higher proportion than was the case in the corresponding quarter of 1959, when of course the current account deficit was considerably smaller. In the first quarter the inflows in long-term forms exceeded by more than a fifth the current account deficit.

Taking the half year as a whole, the capital inflows in these forms totalled \$642 million, compared with \$493 million in the corresponding half of 1959. The 1960 figure was exceeded only in the last half of 1956 and the first half of 1957. About 82 per cent of the current account deficit in the first half of the year was financed by long-term inflows. This proportion was considerably higher than in the corresponding period of 1959 but somewhat lower than in 1957 or 1958.

The net inflow of capital for direct investment in foreign controlled enterprises in Canada is tentatively estimated to have been \$160 million in the second quarter of 1960. The import of direct investment capital has now been sustained at a level of \$160 million or higher for three consecutive quarters. The inflow in this period of \$526 million was larger by some \$60 million than the highest total for any three earlier consecutive quarters. The total for the last four quarters was just under \$600 million.

There were as usual some amounts in the inflow in the second quarter of 1960 to cover the acquisition of existing interests and properties in Canada, but they were smaller than in either the fourth quarter of 1959 or the first quarter of 1960. Apart from such transactions the inward movements were of the same general order of magnitude in the three quarters. And while the movement in the second quarter of 1960 was about the same size as in the corresponding quarter of 1959, much more of it was directed to new capital formation than in the earlier period when a significant part covered the acquisition by a United States company of minority shareholdings in a Canadian subsidiary.

Direct investment inflows in the first half of 1960 continued to be largely directed to the development of industries based on natural resources. Not far short of three-quarters of the movement was to petroleum and natural gas and to mining companies. The extended period over which inflows for investment in resource-based industries have continued at high levels has been a striking feature of Canada's capital account. The movement into these industries in the first half of 1960 was well above the amount in the second half of 1959, and was approaching twice the amount in the first half of that year. Inflows to manufacturing accounted for a fifth of the total movement in the first half of 1960, and were spread over forest products, chemicals, and a wide variety of other categories. Other direct investment inflows were directed mainly to the acquisition of interests in financial institutions, Canadian real estate, and some other concerns.

Geographically it would appear from the data presently available that about 85 per cent of the inflow for direct investment in the first half of 1960 came from the United States, and about 10 per cent from the United Kingdom. During 1959 as a whole the United States supplied 78 per cent and the United Kingdom 12 per cent. But it may be noted that the rate of total inflow was then smaller and the movement from the United Kingdom, although making up a smaller proportion of the total, is probably larger in amount.

Transfers of Canadian capital for direct investment abroad are estimated to have amounted to \$15 million in the second quarter of 1960 and a like amount in the first quarter.

Transactions in Canadian portfolio securities produced an inflow of \$110 million of capital in the second quarter. This included \$16 million from the net sale of outstanding bonds and debentures, \$24 million from the net sale of outstanding common and preference stocks, and \$133 million of new issues, against which there were retirements of \$63 million of foreign-held Canadian securities. The total compared with \$199 million in the first quarter when new issues sold to non-residents were appreciably higher and retirements appreciably smaller. The net inflow of \$309 million in the first half of 1960 compared with \$291 million in the first half of 1959 and \$661 million for the year as a whole.

Transactions in foreign portfolio securities led to a net outflow of \$3 million in the second quarter. This compared with a net inflow of \$14 million in the first quarter which reflected

on balance the resale by Canadians of outstanding United States stocks and the retirement of foreign stocks.

Regular instalments of principal fell due during the second quarter on inter-governmental loans to Belgium and the Netherlands, giving rise to a capital inflow of \$7 million.

Among capital movements in short-term forms there was an outflow of \$10 million arising from the reduction of Canadian dollar holdings by foreigners. There may be special interest in this movement because of the changes which occurred in the exchange rate in this period. Deposits of residents of the United States and of Continental Europe rose by over \$20 million while deposits of residents of other areas fell by nearly as much. There was at the same time a significant run-off of holdings by residents of the United States of Canadian treasury bills through retirements, and it was this which on balance caused the decline in total holdings of Canadian dollars.

Canada's official holdings of gold and foreign exchange were reduced during the quarter resulting in a capital inflow of \$82 million. This change was larger than for some years past, but was exceeded by the inflow in the second quarter of 1953. Most of the movement reflected a net reduction in official holdings of gold and United States dollars. In terms of United States funds these fell from \$1,856 million at the beginning of the second quarter to \$1,842 million at the end of April and \$1,740 million at the end of May. By the end of June holdings had been increased to \$1,774 million (and they were further augmented in July).

Commenting in the House of Commons on July 4 on the change in official holdings in May, the Minister of Finance reaffirmed that there had been no change in policy or in the basis of operation of the Exchange Fund Account. The changes in holdings were the result simply of "normal operations carried out with a view to reducing the fluctuation in the exchange rate from day to day." (Comments on exchange rate movements in the second quarter appear in a later paragraph).

All other capital movements were inward on balance in an amount of \$140 million during the second quarter. These capital receipts followed outflows of \$31 million in the fourth quarter of 1959 and of \$57 million in the first quarter of 1960. A wide variety of transactions are included in this item which also reflects the balancing item representing the difference between the current account balance and the capital movements for which quarterly data are available. Financial institutions brought in substantial amounts of capital but at the same time there was a substantial growth in private Canadian holdings of foreign exchange. Outstanding accounts receivable and payable also showed important changes.

#### Exchange rate

The exchange value of the Canadian dollar fluctuated more than usually during the second quarter of 1960. The price of the United States dollar in the Canadian exchange market, which was 95.78 cents at the end of the first quarter, had been showing a tendency to rise before the end of March. This movement continued, with a pause in the latter part of April, until May 25 when the price of the United States dollar in Canada reached 99 cents. Some falling off then occurred and the closing quotation for the quarter was 98.03 cents. It may be noted that although the trading range of 3.44 cents between the high and the low of 95.56 cents on April 1 was wider than has been the case for many years, the United States dollar rate did not reach the high points recorded in three of the preceeding five years. The noon average of 97.49 cents for the second quarter compared with 95.18 cents for the first and was the highest since the first quarter of 1958. Reasons for sudden changes in the exchange rate such as occurred in the quarter under review cannot be established from the study of quarterly estimates of the balance of payments although some of the longer range factors which may influence the rate will be evident. An earlier paragraph described the changes in official holdings of gold and foreign exchange as released by the Minister of Finance, and the policy followed by the Exchange Fund Account.

Summary of Capital Movements, 1959 and 1960

(millions of dollars)

	1959		1960		1959		1960
	III	IV	I	II	First half	Second half	First half
Direct investment in Canada	+ 72	+181	+185	+160	+247	+253	+345
Direct investment abroad	- 22	- 12	- 15	- 15	- 36	- 34	- 30
Canadian securities							
Trade in outstanding bonds	+ 33	+ 12	+ 20	+ 16	+ 48	+ 45	+ 36
Trade in outstanding stocks	+ 25	+ 19	+ 13	+ 24	+ 65	+ 44	+ 37
New issues	+210	+197	+204	+133	+297	+407	+337
Retirements	- 59	- 67	- 38	- 63	-119	-126	-101
Foreign securities	- 7	- 12	+ 14	- 3	- 17	- 19	+ 11
Official loan repayments (net)	-	+ 25	-	+ 7	+ 8	+ 25	+ 7
Subscription in gold to IMF	-	- 59	-	-	-	- 59	-
Canadian dollar holdings of foreigners	+ 22	- 44	- 22	- 10	+ 34	- 22	- 32
Official holdings of gold and foreign exchange (increase, -)	- 3	+ 67	+ 11	+ 82	+ 6	+ 64	+ 93
Other capital movements	+ 34	- 31	- 57	+140	+315	+ 3	+ 83
Net capital movement financing current account	+305	+276	+315	+471	+848	+581	+786



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1960 are preliminary and

		1958			1959
		II	III	IV	I
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,277	1,219	1,307	1,061
3	Gold production available for export .....	39	39	38	38
4	Travel expenditures .....	76	186	55	33
5	Interest and dividends .....	38	29	70	30
6	Freight and shipping .....	102	98	103	92
7	Inheritances and immigrants' funds .....	27	26	26	18
11	All other current receipts .....	91	87	101	93
12	<b>Total Current Receipts</b> .....	<b>1,650</b>	<b>1,684</b>	<b>1,700</b>	<b>1,365</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,361	1,202	1,349	1,215
4	Travel expenditures .....	140	191	111	118
5	Interest and dividends .....	136	151	199	141
6	Freight and shipping .....	114	127	124	95
7	Inheritances and emigrants' funds .....	36	39	41	31
9	Official contributions .....	18	12	11	9
11	All other current payments .....	176	169	166	171
12	<b>Total Current Payments</b> .....	<b>1,981</b>	<b>1,891</b>	<b>2,001</b>	<b>1,780</b>
	Balance on Merchandise Trade .....	- 84	+ 17	- 42	- 154
	Balance on Other Transactions, excluding B 9 .....	- 229	- 212	- 248	- 252
	Official Contributions .....	- 18	- 12	- 11	- 9
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 331</b>	<b>- 207</b>	<b>- 301</b>	<b>- 415</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 94	+ 103	+ 130	+ 85
2	Direct investment abroad .....	- 23	+ 6	- 11	- 24
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 12	- 7	+ 21	+ 33
3b	Trade in outstanding common and preference stocks .....	+ 17	+ 35	+ 33	+ 32
4	New issues .....	+ 295	+ 102	+ 101	+ 186
5	Retirements .....	- 50	- 27	- 51	- 41
	Foreign Securities				
6	Trade in outstanding issues .....	- 1	+ 3	+ 7	- 5
7	New issues .....	- 7	- 2	- 4	- 3
8	Retirements .....	+ 1	+ 2	+ 2	+ 3
	Loans by Government of Canada				
9	Drawings .....	- 8	-	- 10	- 1
10,11	Repayments .....	+ 17	+ 7	+ 33	-
13	Subscriptions in gold and U.S. dollars to IBRD, IFC and IMF .....	-	-	-	-
14	Change in Canadian dollar holdings of foreigners .....	+ 41	+ 90	- 9	- 12
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 52	+ 32	- 50	+ 49
17	Other capital movements .....	+ 19	- 137	+ 109	+ 113
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 331</b>	<b>+ 207</b>	<b>+ 301</b>	<b>+ 415</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance transactions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1959 are subject to revision.

1959			1960		Annual Totals			Four Quarters ending June 30, 1960	
II	III	IV	I	II	1957	1958	1959		
(millions of dollars)									
1,356	1,286	1,450	1,284	1,323	4,894	4,887	5,153	5,343	A
40	33	37	43	34	147	160	148	147	1
85	214	61	39	95	363	349	393	409	3
43	40	70	35	37	154	168	183	182	4
112	105	113	99	110	445	401	422	427	5
34	33	24	18	29	124	97	109	104	6
95	104	96	90	100	388	375	388	390	7
									11
1,765	1,815	1,851	1,608	1,728	6,515	6,437	6,796	7,002	12
1,540	1,367	1,411	1,327	1,502	5,488	5,066	5,533	5,607	B
141	214	120	111	167	525	542	593	612	1
151	150	214	143	158	589	612	656	665	4
130	145	142	109	135	515	460	512	531	5
39	42	42	38	44	157	145	154	166	6
21	22	19	10	9	40	53	71	60	7
176	180	179	185	184	656	690	706	728	9
									11
2,198	2,120	2,127	1,923	2,199	7,970	7,568	8,225	8,369	12
- 184	- 81	+ 39	- 43	- 179	- 594	- 179	- 380	- 264	
- 228	- 202	- 296	- 262	- 283	- 821	- 899	- 978	-1,043	
- 21	- 22	- 19	- 10	- 9	- 40	- 53	- 71	- 60	
- 433	- 305	- 276	- 315	- 471	-1,455	-1,131	-1,429	-1,367	C
+ 162	+ 72	+ 181	+ 185	+ 160	+ 514	+ 420	+ 500	+ 598	D
- 12	- 22	- 12	- 15	- 15	- 68	- 48	- 70	- 64	1
+ 15	+ 33	+ 12	+ 20	+ 16	- 45	-	+ 93	+ 81	2
+ 33	+ 25	+ 19	+ 13	+ 24	+ 137	+ 88	+ 109	+ 81	3a
+ 111	+ 210	+ 197	+ 204	+ 133	+ 798	+ 677	+ 704	+ 744	3b
- 78	- 59	- 67	- 38	- 63	- 133	- 158	- 245	- 227	4
- 12	- 8	- 8	+ 10	- 2	+ 24	+ 13	- 33	- 8	5
- 2	- 1	- 7	- 2	- 4	- 24	- 17	- 13	- 14	6
+ 2	+ 2	+ 3	+ 6	+ 3	+ 6	+ 7	+ 10	+ 14	7
-	-	-	-	-	-	- 34	- 1	-	8
+ 9	-	+ 25	-	+ 7	+ 50	+ 64	+ 34	+ 32	9
-	-	- 59	-	-	-	-	- 59	- 59	10,11
+ 46	+ 22	- 44	- 22	- 10	- 35	+ 106	+ 12	- 54	13
- 43	- 3	+ 67	+ 11	+ 82	+ 105	- 109	+ 70	+ 157	14
+ 202	+ 34	- 31	- 57	+ 140	+ 126	+ 122	+ 318	+ 86	16
+ 433	+ 305	+ 276	+ 315	+ 471	+1,455	+1,131	+1,429	+1,367	17
									E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.











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## QUARTERLY ESTIMATES OF

## THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

THIRD QUARTER, 1960

In the third quarter there was a sharp contraction in the deficit from international transactions in goods and services between Canada and other countries. At \$114 million this was less than one-quarter of the size in the previous quarter and only a little more than one-third of the deficit in the same quarter last year, and less than in any third quarter since 1955. Contributing to this result was the unusual appearance of a surplus of \$89 million on commodity account, together with some contraction of the deficit from non-merchandise transactions to \$203 million.

In the first three quarters of 1960 the current imbalance was \$894 million compared with \$1,153 million in the same period last year. This contraction in deficit was due to the rise of over \$300 million in merchandise exports overseas. Merchandise imports were slightly more and there was a further rise in the deficit from non-merchandise transactions to \$764 million which made up over 85 per cent of the total deficit in the three quarters. In comparison with 1958 the deficit on merchandise account this year was about the same, although both exports and imports were substantially higher, but the deficit from non-merchandise transactions was 10 per cent higher.

Contrasting high demands from overseas and reduced demands from the United States were an outstanding feature of the period. At the same time Canadian demands, as reflected in imports, were again less than in preceding quarters. And there appeared to be no longer the influence of accumulating inventories that had been a factor affecting imports in earlier periods.

Export balance on merchandise trade in quarter

Merchandise exports were higher than ever before in the third quarter due to strong demands from overseas countries and were only exceeded in the fourth quarter of 1959. At the same time imports in the third quarter were less than in the third quarter of either 1959, 1957, or 1956, although still above the level in 1958 or in this period prior to 1956. The level of exports to overseas countries in the third quarter was higher than in previous quarters having risen during the year and stood some 11 per cent above the previous record level in the fourth quarter of 1959. On the other hand exports to the United States in the third quarter were down by relatively more than this. The effect of these divergent trends was to produce an export balance of \$89 million in the third quarter which compares with an import balance of \$81 million in the same period of 1959.

This change further led to a contraction in the cumulative negative balance in the nine months to \$130 million from \$419 million last year. Exports in the three quarters were substantially higher while imports were up only slightly.

The substantial rise in exports between the nine months of 1959 and 1960 from \$3,703 million to \$4,007 million was in response to strong demands originating in the United Kingdom, Western Europe, some other countries in the Sterling Area (notably Australia), and Japan. The rise in shipments to overseas countries was over 22 per cent in contrast to a total value to the United States which was slightly less than in 1959. Increases covered a wide range of commodities. These were chiefly industrial materials and the main exceptions were Canadian products from the farm and the sea. With an increase of over \$60 million, copper and products represented the largest gain in value among commodity groups; and gains of between \$30 million and \$40 million occurred in the shipments of each of the following: newsprint; nickel; aluminum and products; and plastics, synthetic rubber and other chemicals. Smaller but still sizable increases were recorded in the exports of synthetic fibre and products, lumber and timber, wood pulp, iron ore, pig iron and primary steel, rolling mill products, fabricated steel products including non-farm machinery, engines and boilers, cars and automobile parts, electrical apparatus, asbestos and products and crude petroleum.

Reductions in exports of wheat and other grains exceeded \$40 million between the first three quarters of 1959 and 1960; and shipments of uranium and farm implements each declined between \$20 million and \$30 million. Exports of cattle, fish and fishery products were also lower.

There was a small net increase in the imports for the nine months of 1960 to \$4,137 million. This was about the magnitude of the total in the same period of 1956, but a little less than in 1957, and much more than in 1958. This level in 1960 appears to have been a reflection of the hesitant state of business activity in Canada, including a lack of vigour in investment by business in inventories, plants and equipment. Changes in imports from the previous year were generally offsetting and of fairly moderate magnitudes distributed among a variety of commodities. On the basis of incomplete trade returns for the month of September, increased imports during the first nine months of 1960 were indicated in fruits and vegetables, cotton and products, wool and products, bauxite and alumina, aircraft, engines and parts, automobiles, trucks and parts and non-farm machinery. Imports of farm implements were substantially lower in the period under review, while those of the following commodities and commodity groups were moderately lower; sugar, petroleum products, other iron and steel products and electrical equipment.

Deficit from services and other non-merchandise items

The deficit from services and other non-merchandise transactions for the nine months of 1960 was estimated at \$764 million, up \$30 million over the deficit for the same months of 1959. This increment was more moderate than that of \$41 million between the first three quarters of 1958 and 1959, \$80 million and \$169 million between the corresponding periods of the two preceding contiguous years. The non-merchandise deficit accounted for about 85 per cent of the current account imbalance in the period under review, slightly more than in 1958 (when the merchandise trade balance stood at about the same level), and for less than the two-thirds which it represented in 1959.

Prepared in the Balance of Payments Section, International Trade Division.

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The \$30 million rise in the deficit from "invisible" transactions in the nine months was attributable to larger deficits in the income and government accounts, migrants' funds and business services, offset in part by lower deficits in the travel and freight accounts and miscellaneous income and a higher value of gold production available for export. Much the same pattern of trends as this was also evident in the third quarter, although more accentuated in that period for seasonal and special reasons. As a result the size of the deficit was reduced moderately in the third quarter from the level in that period last year.

During the nine months' period the deficit arising from the income account remained the most important single source of the negative balance from all non-merchandise transactions. In the first nine months of 1960, the income account deficit of \$350 million represented 46 per cent, slightly more than in the two preceding years, but a smaller share than in 1957. A small decline in receipts of interest and dividends together with a larger gain in payments accounted for the spread of \$21 million in the income account deficit. Higher interest receipts on official and funded debt were more than counterbalanced by lower dividend receipts from subsidiaries abroad of some Canadian manufacturers. Payments of interest, which were markedly higher in each of the three quarters of 1960, arising in particular from large issues in 1959 of provincial and municipal bonds in the United States, and larger dividends paid by public companies to non-residents, were in part offset by lower dividend remittances by subsidiaries in Canada to their non-resident parents.

A reduction in official contributions, due mainly to the absence in 1960 of relief shipments of wheat to some Asian countries and also to reduced shipments under the Colombo Plan, was generally offset by higher payments on government account for military expenditures (including the NATO infrastructure programme) and also a non-recurring real estate transaction. An enlarged deficit from migrants' funds and inheritances accompanied fewer immigrants with lower per capita funds and an estimated larger flow of emigrants during the three quarters of 1960. In association with the expansion in total export and import trade between the nine months of 1959 and 1960, both receipts and payments for freight and shipping services showed increases: the former more than the latter, with the ensuing small cut in the deficit. Provisional estimates of travel receipts also indicate a larger gain than payments. A fall in the deficit in the miscellaneous income account took place owing to lower remittances of interest on non-resident holdings of treasury bills and other assets, combined with extraordinary receipts from financial settlements between associated companies in Canada and the United States.

#### Transactions by areas

The sharp improvement of \$259 million in the current account balance in the nine months of 1960 is the result of a turn-around of \$107 million in the balance with the United Kingdom from a negligible deficit to a surplus, a reduction of \$163 million in the deficit with Other Countries and a minor deterioration in the balance with the United States. Within the Other Countries group, the surplus with the Rest of the Sterling Area grew moderately, while the deficit with the other OEEC and with "other countries" was each reduced between \$70 million and \$80 million.

In transactions with the United States, exports dipped slightly from \$2,311 million to \$2,303 million, imports increased from \$2,789 million to \$2,804 million, and the balance on non-merchandise trade improved from a deficit of \$462 million to \$450 million between the nine months of 1959 and 1960. The minor decline in the exports total to the United States embodied changes of fairly sizable proportions in some individual commodities. Exports of copper and products advanced more than \$28 million, and less substantial gains of over \$10 million were recorded in each of the following groups: wood pulp and newsprint; iron ore and rolling mill products; engines, boilers and non-farm machinery; crude petroleum; and radio, telegraph and other electrical apparatus. Exports of farm implements, aluminum and products, nickel and products and uranium each fell more than \$15 million. Shipments of cattle and lumber declined more moderately.

A sharp drop of some \$40 million to \$50 million occurred in the imports of iron and products, including items such as tractors and parts, automobiles and parts, and a smaller decline in commodities within the group of non-metallic minerals and products. Imports of fibres, textiles and products, principally cotton, gained between \$20 million and \$30 million, and lesser increases were indicated in purchases of agricultural and chemical products. A decline in the deficit on travel account together with smaller reductions for freight and miscellaneous income was in part offset by increases in the deficit for migrants' funds, business services and a decline in the surplus on government account.

#### Summary of Current Transactions with the

#### United States, United Kingdom and Other Countries, 1959 and 1960

#### and Change between the Periods

(millions of dollars)

	<u>All Countries</u>			<u>United States</u>			<u>United Kingdom</u>			<u>Other Countries</u>		
	1959	1960	Change	1959	1960	Change	1959	1960	Change	1959	1960	Change
<u>Third quarter</u>												
Merchandise exports (adjusted)	1,286	1,400	+ 114	806	769	- 37	189	243	+ 54	291	388	+ 97
Merchandise imports (adjusted)	1,367	1,311	- 56	884	855	- 29	156	131	- 25	327	325	- 2
Balance on merchandise trade	- 81	+ 89	+ 170	- 78	- 86	- 8	+ 33	+112	+ 79	- 36	+ 63	+ 99
Balance on non-merchandise trade	-224	-203	+ 21	-105	- 76	+ 29	- 53	- 55	- 2	- 66	- 72	- 6
Current account balance	-305	-114	+ 191	-183	-162	+ 21	- 20	+ 57	+ 77	-102	- 9	+ 93
<u>January to September</u>												
Merchandise exports (adjusted)	3,703	4,007	+ 304	2,311	2,303	- 8	554	683	+ 129	838	1,021	+ 183
Merchandise imports (adjusted)	4,122	4,137	+ 15	2,789	2,804	+ 15	438	445	+ 7	895	888	- 7
Balance on merchandise trade	-419	-130	+ 289	-478	-501	- 23	+116	+238	+ 122	- 57	+133	+ 190
Balance on non-merchandise trade	-734	-764	- 30	-462	-450	+ 12	-118	-133	- 15	-154	-181	- 27
Current account balance	-1,153	-894	+ 259	-940	-951	- 11	- 2	+105	+ 107	-211	- 48	+ 163

The marked improvement in the current account balance with the United Kingdom between the three quarters of 1959 and 1960 was the outcome of a sharp gain of nearly \$130 million in merchandise exports, a negligible rise in imports and a moderate increase in the deficit on non-merchandise transactions. A preponderant portion of the export gains was concentrated in the commodity groups: wood, wood products and paper (\$40 million), iron and its products (\$33 million) and non-ferrous metals and products (\$49 million). Within these groups, advances of over \$20 million each were noted in shipments of lumber, nickel, iron and primary and semi-finished steel, and gains of between \$10 million and \$20 million in copper, wood pulp and newsprint. Much more moderate declines in exports covered wheat, canned salmon and uranium.

A substantial rise of over \$30 million occurred in imports of iron and products (principally automobiles) while imports of all other commodity groups appeared to have fallen, but less than \$10 million in each case. All the items among "invisible" transactions with the United Kingdom, with the exception of the migrants' funds, contributed to the moderate rise in the deficit from this source.

There was a decline of \$163 million in the current account deficit with Other Countries in the nine months' period. Transactions with the Rest of the Sterling Area contributed \$14 million towards this reduction through a slightly larger increase in merchandise exports than in imports together with a decline in the deficit on non-merchandise transactions. Exports of wood pulp and newsprint, automobiles and parts and aluminum were larger, while shipments of wheat were down substantially. Imports of fibres, non-ferrous and non-metallic minerals were higher; and as referred to above, official contributions to this area were considerably smaller, and except also for a decline of a fair size in dividend receipts, changes in other non-merchandise transactions were minor.

In transactions with the other OEEC countries, merchandise exports grew \$107 million during the first nine months of 1960, as compared with only a marginal gain in imports, while a deterioration of \$24 million took place in the deficit on non-merchandise trade. Non-ferrous metals including aluminum, nickel and copper, iron ore and some chemical products were prominent among increased exports, while many small and offsetting changes among the commodity groups resulted in a small net increase in imports. Except for minor reductions in the deficit on freight and miscellaneous income accounts, other transactions resulted in larger deficits, in particular on travel and government account, due in part to higher NATO military expenditures.

The deficit balance on merchandise trade with "other countries" improved by \$83 million with a \$42 million increase in exports and a fall of \$41 million in imports. Canadian exports to Japan grew by \$28 million during the three quarters of 1960 and exports advanced more moderately to Argentina, Mexico, Brazil, Czechoslovakia, Yugoslavia, and Communist China, while smaller shipments went to Venezuela, Cuba, Peru, and the U.S.S.R. Imports were lower from the Netherlands Antilles and from Latin American countries, including Mexico, El Salvador, Cuba and Venezuela, while imports from Iran, Japan and Ecuador were higher. Minor negative changes in the balance on "invisible" transactions with the "other countries" contributed to the development of a \$11 million deficit from this group of items.

#### Capital movements

Two features stand out in the capital account. The first is the continuing inflow to Canada of capital for direct investment in foreign-controlled enterprises at a substantial level. The second is a sharp decline in capital imported through transactions in portfolio securities. Demands for capital by borrowers who have tended to make use of markets both in Canada and abroad were smaller than in recent quarters. Movements in interest and exchange differentials are not sufficiently clear to establish whether a disinclination to borrow in foreign currency also played a part in the change.

Capital movements in such long-term forms as direct investment, portfolio security transactions, and long-term Government investment, led to a net capital inflow of \$146 million in the third quarter. This was the lowest figure since the final quarter of 1955. It has already been noted that the current account deficit in the quarter was also the lowest since 1955. The reduced inflow in long-term forms in the third quarter as presently recorded exceeds by 28 per cent the current account deficit. This is a wider margin that has been the case in all but one of the quarters during the past five years in which the inflows in long-term forms were greater than the deficit. Over the first nine months of 1960 these inflows have been equivalent to 85 per cent of the deficit.

Geographically about three-fifths of the net capital import in long-term forms during the third quarter came from the United States, with much the larger part of the remainder coming from continental Europe. In the nine months of 1960 about four-fifths came from the United States.

Net inflows of foreign capital for direct investment in foreign-controlled enterprises in Canada continued at a high level in the third quarter. The estimate of \$165 million was somewhat higher than for the second quarter and more than twice the size for the corresponding quarter of 1959. In the three quarters of 1960 the net inflow has been slightly larger than for the whole of 1959. Statistically significant parts of the inflows in both the third quarter and in the nine months financed the acquisition of existing Canadian-owned enterprises and facilities, although they did not make up as large a part of the total as in 1959.

About two-thirds of the net movement in the third quarter represented investment in petroleum, natural gas, and mining, while the balance went largely into manufacturing and finance.

Geographically it would appear from the data presently available that about two-thirds of the net inflow of foreign direct investment capital in the third quarter was from the United States, with somewhat less than half the remainder coming from the United Kingdom and the rest from other countries in Western Europe.

Transfers of Canadian capital for direct investment abroad are estimated to have amounted to \$25 million in the third quarter. This is a somewhat higher level than in recent quarters and includes larger transfers than usual to the United States.

**1960** Transactions in Canadian portfolio securities led to a net capital outflow of \$3 million in the third quarter of 1959 in contrast to an inflow of \$97 million in the second quarter and even larger amounts for the three preceding quarters. The result in the third quarter reflected repatriation of foreign-held Canadian securities through the repurchase by Canadians of \$9 million of outstanding issues and the retirement by debtors of \$22 million, against which must be placed sales to non-residents of new issues of Canadian securities for \$28 million.

Contributing to the change were net repurchases of \$18 million of outstanding Canadian bonds and debentures compared with net sales of \$16 million a quarter earlier. There were net sales of \$9 million of outstanding Canadian stocks but this amount was \$15 million below the total for the second quarter. The proceeds of new issues of Canadian securities sold to non-



residents were \$28 million in contrast with \$124 million in the second quarter. There were substantial declines in sales to non-residents of new provincial, municipal and corporate issues. On the other hand retirements of foreign-held Canadian issues were also smaller, amounting to \$22 million in the third quarter compared with \$67 million in the second. The absence of retirements of foreign-held Government of Canada issues and smaller retirements of provincial, municipal and corporate issues all contributed to the change.

The small repurchase balance from Canadian security transactions in the third quarter followed a series of substantial sales balances or capital inflows, but it may be recalled that as recently as five years ago there were quarters in which net outflows occurred. At that time the interest rates in both Canada and the United States were lower, and the differentials on long-term Government securities in the two countries were much smaller, although those on long-term industrial bonds were somewhat higher.

The change in these capital inflows in the third quarter may be associated in part with lower demands in the Canadian capital market which tend to be a seasonal characteristic of the quarter. In recent years Government of Canada direct and guaranteed borrowing has been largely from residents of Canada, while non-resident ownership has accounted for varying but substantial amounts of the net additions to outstanding provincial, municipal, corporate, and similar securities. In the third quarter of the year non-resident-owned holdings of the latter groups of securities fell by about \$5 million while resident-owned holdings rose by about \$268 million. Over the preceding year and a half non-resident-owned holdings of these securities rose on average about \$139 million per quarter, while resident-owned holdings rose by about \$253 million per quarter. In this period the net imports of capital from all transactions in all groups of Canadian portfolio securities averaged \$159 million per quarter. In the third quarter of 1960 the differential in yields on representative long-term Canadian and United States Government bonds continued to exceed 1 per cent, and over the third quarter, as a whole, did not differ greatly from the second. However, it may be that the interest differentials on industrial bonds are more relevant to international security movements at the present time and these differentials have declined sharply since early this year.

Transactions in foreign securities led to a net capital inflow of \$10 million in contrast with an outflow of \$4 million in the second quarter. Net sales of outstanding United States stocks and bonds, and retirements of Canadian-owned foreign securities accounted for the largest part of the change.

Turning to Government of Canada long-term investments abroad, no principal payments on loans to other governments fell due during the third quarter of 1960, but there was a further payment of \$1 million in foreign exchange made on Canada's capital subscription to the International Bank for Reconstruction and Development.

A sharp increase in Canadian dollar holdings of foreigners was recorded during the quarter. The capital inflow of \$36 million followed three quarters in which capital outflows totalling \$76 million occurred in the form of reductions in holdings of Canadian funds by non-residents. About two-thirds of the increased holdings were for account of residents of the United States.

Contributing to the change were net increases of more than \$25 million in non-resident holdings of Canadian treasury bills. There were gross sales during the quarter of nearly \$110 million, but offsetting repurchases or maturities absorbed \$85 million. Gross sales were of the order of \$45 million in July, \$35 million in August, and \$30 million in September. In late June and early July the interest differential in favour of Canadian treasury bills over United States treasury bills, after provision for protection through forward foreign exchange contracts, was approaching 1 per cent. This differential disappeared during the quarter. Total non-resident holdings at the end of the quarter were about \$75 million.

Canada's official holdings of gold and foreign exchange increased during the quarter, following decreases in the three preceding quarters. This growth in Canadian assets abroad represents an export of Canadian capital, amounting in the third quarter to \$40 million. Most of the movement reflected a net increase in Canada's holdings of gold and United States funds, as official holdings of other currencies are generally limited to working balances. In terms of United States dollars, official holdings of gold and United States funds increased from \$1,773.9 million at the beginning of the quarter to \$1,813.0 million at the end. There were increases totalling \$62.7 million in July and August, followed by a decrease of \$23.6 million in September.

All other capital movements were outward on balance in an amount of \$28 million. There was a substantial inward balance in the previous quarter. As always there was a wide variety of transactions included in the category, which also reflects the balancing item representing the difference between the current account balance and capital movements for which quarterly data have become available. The data suggest that there was a substantial rise in private holdings of foreign exchange, part of them in sterling, as mentioned in the next paragraph. There were net inflows of long-term capital and there appear also to have been further increases in Canada's net international accounts payable.

The other capital movements included an outflow tentatively placed at about \$40 million covering increased holdings of sterling by Canadian residents. A substantial part of this is in the form of United Kingdom treasury bills. Throughout most of the quarter interest and forward exchange rate differentials combined to make attractive the movement of funds from Canada to London on an interest arbitrage basis.

#### Exchange rate

Following the relatively sharp changes in the second quarter, the exchange rate showed greater stability in the third quarter. The noon average price for the United States dollar in the Canadian exchange rate was 97.35 cents, only slightly lower than the average of 97.49 cents in the second quarter. But the trading range of 1.69 cents between the high of 98.31 cents in early July and the low of 96.62 cents in mid-August was less than half the variation of 3.44 cents recorded in the second quarter. The closing quotation of 97.72 cents was 0.31 cents below the quotation at the end of the previous quarter.



Summary of Capital Movements, 1959 and 1960

(millions of dollars)

	<u>1 9 5 9</u>		<u>1 9 6 0</u>			<u>1 9 5 9</u>	<u>1 9 6 0</u>
	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	First nine months	First nine months
Direct investment in Canada	+ 72	+ 181	+ 190	+ 155	+ 165	+ 319	+ 510
Direct investment abroad	- 22	- 12	- 15	- 20	- 25	- 58	- 60
Canadian securities:							
Trade in outstanding bonds	+ 33	+ 12	+ 20	+ 16	- 18	+ 81	+ 18
Trade in outstanding stocks	+ 25	+ 19	+ 13	+ 24	+ 9	+ 90	+ 46
New issues	+ 210	+ 197	+ 204	+ 124	+ 28	+ 507	+ 356
Retirements	- 59	- 67	- 43	- 67	- 22	- 178	- 132
Foreign securities	- 7	- 12	+ 14	- 4	+ 10	- 24	+ 20
Official loan repayments (net)	-	+ 25	-	+ 7	-	+ 8	+ 7
Subscriptions in gold and U.S. dollars to IBRD and IMF	-	- 59	-	-	- 1	-	- 1
Canadian dollar holdings of foreigners	+ 22	- 44	- 22	- 10	+ 36	+ 56	+ 4
Official holdings of gold and foreign exchange (increase, -)	- 3	+ 67	+ 11	+ 82	- 40	+ 3	+ 53
Other capital movements	+ 34	- 31	- 57	+ 158	- 28	+ 349	+ 73
Net capital movement financing current account	+ 305	+ 276	+ 315	+ 465	+ 114	+1,153	+ 894

QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1960 are preliminary and

		1958		1959	
		III	IV	I	II
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,219	1,307	1,061	1,356
3	Gold production available for export .....	39	38	38	40
4	Travel expenditures .....	186	55	33	85
5	Interest and dividends .....	29	70	30	43
6	Freight and shipping .....	98	103	92	112
7	Inheritances and immigrants' funds .....	26	26	18	34
11	All other current receipts .....	87	101	93	95
12	<b>Total Current Receipts</b> .....	<b>1,684</b>	<b>1,700</b>	<b>1,365</b>	<b>1,765</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,202	1,349	1,215	1,540
4	Travel expenditures .....	191	111	118	141
5	Interest and dividends .....	151	199	141	151
6	Freight and shipping .....	127	124	95	130
7	Inheritances and emigrants' funds .....	39	41	31	39
9	Official contributions .....	12	11	9	21
11	All other current payments .....	169	166	171	176
12	<b>Total Current Payments</b> .....	<b>1,891</b>	<b>2,001</b>	<b>1,780</b>	<b>2,198</b>
	Balance on Merchandise Trade .....	+ 17	- 42	- 154	- 184
	Balance on Other Transactions, excluding B 9 .....	- 212	- 248	- 252	- 228
	Official Contributions .....	- 12	- 11	- 9	- 21
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 207</b>	<b>- 301</b>	<b>- 415</b>	<b>- 433</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 103	+ 130	+ 85	+ 162
2	Direct investment abroad .....	+ 6	- 11	- 24	- 12
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	- 7	+ 21	+ 33	+ 15
3b	Trade in outstanding common and preference stocks .....	+ 35	+ 33	+ 32	+ 33
4	New issues .....	+ 102	+ 101	+ 186	+ 111
5	Retirements .....	- 27	- 51	- 41	- 78
	Foreign Securities				
6	Trade in outstanding issues .....	+ 3	+ 7	- 5	- 12
7	New issues .....	- 2	- 4	- 3	- 2
8	Retirements .....	+ 2	+ 2	+ 3	+ 2
	Loans by Government of Canada				
9	Drawings .....	-	- 10	- 1	-
10,11	Repayments .....	+ 7	+ 33	-	+ 9
13	Subscriptions in gold and U.S. dollars to IBRD, IFC and IMF .....	-	-	-	-
14	Change in Canadian dollar holdings of foreigners .....	+ 90	- 9	- 12	+ 46
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	+ 32	- 50	+ 49	- 43
17	Other capital movements .....	- 137	+ 109	+ 113	+ 202
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 207</b>	<b>+ 301</b>	<b>+ 415</b>	<b>+ 433</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on

B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-

B 11) actions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1959 are subject to revision.

1959		1960			Annual Totals			Four Quarters ending Sept. 30, 1960	
III	IV	I	II	III	1957	1958	1959		
(millions of dollars)									
1,286	1,450	1,284	1,323	1,400	4,894	4,887	5,153	5,457	A
33	37	43	35	42	147	160	148	157	1
214	61	39	95	227	363	349	393	422	3
40	70	35	37	36	154	168	183	178	4
105	113	99	110	111	445	401	422	433	5
33	24	18	29	32	124	97	109	103	6
104	96	90	100	101	388	375	388	387	7
									11
1,815	1,851	1,608	1,729	1,949	6,515	6,437	6,796	7,137	12
1,367	1,411	1,327	1,499	1,311	5,488	5,066	5,533	5,548	B
214	120	111	167	215	525	542	593	613	1
150	214	143	158	157	589	612	656	672	4
145	142	109	135	135	515	460	512	521	5
42	42	38	44	45	157	145	154	169	6
22	19	10	9	15	40	53	71	53	7
180	179	185	182	185	656	690	706	731	9
									11
2,120	2,127	1,923	2,194	2,063	7,970	7,568	8,225	8,307	12
- 81	+ 39	- 43	- 176	+ 89	- 594	- 179	- 380	- 91	
- 202	- 296	- 262	- 280	- 188	- 821	- 899	- 978	-1,026	
- 22	- 19	- 10	- 9	- 15	- 40	- 53	- 71	- 53	
- 305	- 276	- 315	- 465	- 114	-1,455	-1,131	-1,429	-1,170	C
									D
+ 72	+ 181	+ 190	+ 155	+ 165	+ 514	+ 420	+ 500	+ 691	1
- 22	- 12	- 15	- 20	- 25	- 68	- 48	- 70	- 72	2
+ 33	+ 12	+ 20	+ 16	- 18	- 45	-	+ 93	+ 30	3a
+ 25	+ 19	+ 13	+ 24	+ 9	+ 137	+ 88	+ 109	+ 65	3b
+ 210	+ 197	+ 204	+ 124	+ 28	+ 798	+ 677	+ 704	+ 553	4
- 59	- 67	- 43	- 67	- 22	- 133	- 158	- 245	- 199	5
- 8	- 8	+ 10	- 2	+ 5	+ 24	+ 13	- 33	+ 5	6
- 1	- 7	- 2	- 5	- 2	- 24	- 17	- 13	- 16	7
+ 2	+ 3	+ 6	+ 3	+ 7	+ 6	+ 7	+ 10	+ 19	8
-	-	-	-	-	-	- 34	- 1	-	9
-	+ 25	-	+ 7	-	+ 50	+ 64	+ 34	+ 32	10,11
-	- 59	-	-	- 1	-	-	- 59	- 60	13
+ 22	- 44	- 22	- 10	+ 36	- 35	+ 106	+ 12	- 40	14
- 3	+ 67	+ 11	+ 82	- 40	+ 105	- 109	+ 70	+ 120	16
+ 34	- 31	- 57	+ 158	- 28	+ 126	+ 122	+ 318	+ 42	17
+ 305	+ 276	+ 315	+ 465	+ 114	+1,455	+1,131	+1,429	+1,170	E

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.





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## QUARTERLY ESTIMATES OF THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

FOURTH QUARTER 1960, AND

PRELIMINARY ESTIMATES FOR THE YEAR 1960

There was a contraction in the imbalance in Canada's current transactions in goods and services with other countries in 1960 to \$1,270 million from a revised estimate of \$1,494 million in 1959. At this level in 1960 the current account deficit was less than in any year in the past half decade except 1958. Capital inflows associated with this imbalance continued to increase the amount by which Canadian liabilities to other countries exceed Canadian assets abroad mainly through the increases in various types of non-resident investments in Canada.

By the end of 1960 Canadian liabilities of all kinds to other countries estimated at \$26.1 billion exceeded the total of Canadian assets abroad of \$9.1 billion by \$17 billion, which compares with net international liabilities of \$15.5 billion at the end of 1959. The principal elements in the liabilities are the foreign long-term investments in Canada with a value estimated at \$22.3 billion in 1960 compared with \$20.8 billion in 1959.

Inflows for direct investment in foreign controlled enterprises rose to new heights but there was a sharp contraction in inflows of portfolio capital. Inward movements in other short-term forms supplied a slightly higher proportion of the financing than in recent years.

The most important single change in the current account in 1960 was the rise in the value of Canadian exports. The increase in receipts from this source was entirely the result of general rises in Canadian exports to overseas countries which rose by 20 per cent in the face of a contraction in exports to the United States. At the same time imports of merchandise were slightly less both from the United States and overseas.

While there was accordingly a sharp decline in the deficit from merchandise trade to \$148 million, there continued to be a large deficit of \$1,122 million from non-merchandise transactions. The latter was at a higher level than ever but the rise of some 5 per cent from the previous year was more moderate than in earlier years. As has been the case over the years the continued growth in imbalance was dispersed over most items and in 1960 the deficit from each of the non-merchandise items (except gold and official contributions) was higher than ever before. One reason the increase was less pronounced than formerly lies in the unusually low level of dividend transfers by subsidiaries to parent companies in the final quarter of the year.

The general economic background affecting the Canadian balance of payments for 1960 was one of divergent trends, overseas and in North America. These are exemplified by the strong demands for Canadian exports originating in the United Kingdom and other countries of Western Europe and elsewhere overseas on the one hand, and the more hesitant economic conditions in the United States and Canada. The effect of the divergent economic trends was, of course, to increase exports to overseas at a time when Canadian exports to the United States were tending to lag and when Canadian imports were no longer showing the tendency to grow so evident during the past decade. Affecting the level of imports more specifically have been such important influences as a reduced scale of business investment in Canada and some reductions in business inventories in part of the year.

The rise of 5 per cent in the current deficit on non-merchandise transactions was less than in preceding years but the large deficit from non-merchandise transactions has been growing substantially each earlier year since 1952, having more than tripled since then. The factors underlying this rise in payments to other countries on account of income and services seem to have been closely related to the general expansion in the Canadian economy during the past decade. This general economic growth was to a large extent made possible by foreign financing of investment activity which has led to a rapid rise in the Canadian balance of international indebtedness. The effects of the latter have been to increase the levels of net transfers of interest and dividends on foreign investments in Canada and to increase payments to parent companies for business services and other current charges. At the same time there have been increasing expenditures abroad by Canadians on services of various kinds and remittances which have been made possible by high levels of incomes in Canada and

Prepared in the Balance of Payments Section, International Trade Division.

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also stimulated by the effects of recent migration and increasing personal mobility. These have been for such services as travel, transportation, and a great variety of business services, and there also have been larger remittances for personal and benevolent purposes. And the current outlays abroad by the Canadian Government on defence in the NATO countries and on economic aid and other contributions have been rising.

#### Developments in the fourth quarter

Following a fairly substantial dip in the current account deficit in the third quarter, the deficit again widened in the last quarter of 1960. The imbalance of \$318 million represented one-quarter of the total for the year of \$1,270 million, and this fourth quarter share compared with those of 19 1/2 per cent and 26 1/2 per cent for the corresponding period of 1959 and 1958. The deterioration of \$23 million in the deficit from \$295 million in the fourth quarter of 1959 to \$318 million was attributable wholly to merchandise trade, with a larger drop in exports than in imports, as a slight reduction took place in the deficit on non-merchandise transactions. This slight improvement in the deficit on "invisibles" was the interaction between a sharp drop in the deficit on the income account (to which reference is made elsewhere in the text) and a higher value of gold production available for export, offset in part by expanding deficits in other non-merchandise accounts.

#### Contraction in deficit on merchandise trade 1960

There was a sharp contraction in the import balance on merchandise trade from \$423 million in 1959 to \$148 million in 1960 as exports to all countries rose 5 per cent in total while imports fell slightly.

In 1960 the principal change in Canada's commodity trade was the sharp rise in exports to overseas markets at a time when exports to the United States were moderately lower and imports from both the United States and overseas slightly less than in 1959. This is in direct contrast to preceding years when Canadian imports were the more flexible component fluctuating widely in response to changing pressures of Canadian demands, particularly in the case of imports from the United States, while exports, especially to overseas countries, showed relative stability in total over a period of years.

The increasing strength in overseas demands for Canadian exports appeared in the latter part of 1959. Exports overseas continued at high levels throughout 1960 and were at even higher levels towards the end of the year than those prevailing at the beginning of the year. Exports to the United States in contrast started the year at a higher level but by the second quarter a downward trend was evident which continued during the remainder of the year.

The rise in exports overseas which amounted to 20 per cent occurred in trade to most principal markets but was most pronounced to such major markets as the United Kingdom, the countries of the Common Market, Japan, and Australia which together made up most of the total increase. While the largest parts of the increases were in demand for major export staples of primary and semi-processed materials, there were also gains in some manufactured goods particularly to the United Kingdom where restrictions on many imports had been removed. As a result of this trend to overseas countries, the United States took 56 per cent of Canada's exports compared with almost 62 per cent in 1959.

Some of the more substantial rises in exports to all countries occurred in such metals as aluminum, copper, nickel, zinc, primary steel and rolling mill products, and in asbestos and petroleum. Other leading exports like pulp and paper, lumber and chemicals also showed gains but some like iron ore remained close to the level of the previous year. Among impressive gains in manufactured goods were such exports as textiles and non-farm machinery. On the other hand agricultural products dropped including wheat, other grains and flour, and cattle and dairy products as did shipments of fish, farm implements and uranium.

The relative stability of imports in 1960 is evident in most major groups of commodities and in sources. A small decline in total imports during the year was distributed among different sources including the United States, United Kingdom and Latin America.

Increases in imports in 1960 were usually small and confined to relatively few items some of which were affected by special circumstances. Among the increases were such divergent commodities as vegetables, cotton and textiles, iron ore, crude petroleum, automobiles and deliveries of aircraft. Reductions were more numerous and often relatively small, although drops in petroleum products, tractors and other agricultural implements were comparatively large. On the other hand imports of other kinds of machinery remained high, although some kinds of equipment were lower in the year.



With the export price index being only fractionally higher in 1960 than in 1959 and the average import price level about 1 1/2 per cent higher, the terms of Canada's trade with other countries declined about 1 per cent in 1960, but remained more favourable than in 1957 or 1958. There was a tendency for the degree of rise in the export prices to narrow towards the year end, while that of import prices heightened as the year progressed. Over the whole year, the export prices of non-ferrous metals advanced about 3 1/2 per cent while those of wood products and paper declined more moderately. Average import prices of fibres and textiles appeared to have risen about 7 per cent, while those of non-metallic minerals declined 2 per cent.

#### Deficit from services and other non-merchandise items

With an increase of \$51 million, the deficit from non-merchandise transactions with other countries stood at the highest recorded level of \$1,122 million. This absolute increase was considerably below those ranging between \$91 million and \$223 million which took place in the period from 1956 to 1959. But at the same time owing to the sharp improvement in the imbalance on merchandise trade during the year, the non-merchandise trade deficit in 1960 represented over 88 per cent of the current account deficit. The deficit from "invisible" transactions accounted in 1956 and in each of the three ensuing years for 47, 59, 84 and 72 per cent of the current account deficit. All the items among non-merchandise transactions, excepting gold production available for export and official contributions, shared in the 1960 growth in the deficit from the "invisibles". Larger deficits in the government account, freight and shipping services and migrants' funds and inheritances resulted in each case from a decline in receipts combined with an increase in payments. Higher increases in payments than in receipts from travel, business services and personal remittances and a larger reduction in receipts than in payments in the income account contributed to a continuing deterioration in the deficits on these accounts.

Following a modest reduction in the receipts of interest and dividends from \$183 million in 1959 to \$175 million in 1960 and in the payments from \$657 million to \$655 million, the deficit on the income account of \$480 million in 1960 represented nearly 43 per cent of the deficit from all non-merchandise transactions. This proportion compared with that of 44 per cent in 1959, about 60 to 65 per cent in the years 1953 to 1956 and over 80 per cent in 1952, when the income account deficit was at a much lower level of \$268 million. Dividend receipts from subsidiaries abroad of certain large manufacturing companies in Canada were lower in 1960, as were the receipts of interest on official loans, but earnings of the Exchange Fund Account rose fairly substantially. A \$28 million advance in interest payments was attributable mainly to sizable net sales of provincial, municipal and corporation bonds in the United States in 1959 and in the first half of 1960. On the other hand, there was a decline of \$30 million in dividend payments, which was concentrated in the last quarter of the year. Remittances of dividends abroad by public companies were moderately higher throughout the year, but absences of or contractions in the amounts remitted by a number of large Canadian companies to their non-resident parents accounted for the fourth quarter drop in dividend payments. This development may probably be related to the reappraisal by corporate decision makers of both the incidence of budgetary changes and the altered exchange value of the Canadian dollar. Indications at the time of writing are that there may be relatively larger payments than usual in the following quarter.

Gains of approximately 6 1/2 per cent in travel receipts from \$391 million in 1959 to \$417 million in 1960 and in tourist payments from \$598 million to \$632 million raised the imbalance on this account slightly to \$215 million, which accounted for 19 per cent of the deficit from all "invisibles". A minor decline from \$420 million to \$415 million in receipts from freight and shipping services together with a marginal gain in payments raised the 1960 deficit to \$111 million, representing 10 per cent of the deficit from all non-merchandise trade. Receipts of migrants' funds and inheritances declined on account of the number of immigrants in 1960 being at a lower level, with smaller per capita funds, than in 1959; but payments of migrants' funds and inheritances increased, accompanying a larger number of emigrants from Canada. Official contributions declined from \$71 million to \$58 million, due mainly to the absence in 1960 of relief shipments of wheat to countries in South-East Asia which were fairly sizable in the two preceding years. In addition there were gifts of canned meat, whole milk powder and other food to other countries, and wheat flour was contributed in the fourth quarter of the year to the food bank plan under the NATO auspices. The deficit from other government transactions rose fairly substantially from a decline in receipts combined with a larger gain in payments. An indicated falling off in United States government expenditures in Canada on defence installations was a factor in lower receipts, while among the causes contributing to enlarged payments in 1960 were higher defence expenditures in the United States and Europe, including a sharp rise in payments under the NATO infrastructure programme, acquisition of real estate for official use, advance payment of the 1961 United Nations assessment and remittance of old age security payments abroad. A marginal increase in receipts and a larger gain in payments for business services contributed to a further small deterioration in the deficit, which in 1960 accounted for 15 per cent of the total imbalance from non-merchandise trade. Finally, an increase of \$13 million to \$161 million in the value of gold production available for export provided a partial offset to the expansion in the deficit.



### Transactions by areas

In a bilateral distribution of the positive change of \$224 million in the current account balance between 1959 and 1960, the deterioration with the United States and the improvement with the United Kingdom were offsetting as each amounted to \$136 million; thus the reduction in the deficit with Other Countries of \$224 million equalled the improvement in Canada's current account deficit with all countries. About half of the change with Other Countries was a contraction in the current account deficit with the other Metropolitan OEEC countries.

As a result, while the deficit with the United States widened to \$1,377 million there was a reappearance of a current surplus with all overseas countries as a group of \$107 million compared with the unusual current deficit of \$253 million which emerged in 1959. The leading factor influencing the above changes in current balances by countries was the sharp rise in merchandise exports to the United Kingdom and Other Countries and the contraction in merchandise exports to the United States. But the effect of rising exports overseas was partly offset by a gain in deficit from non-merchandise transactions which was concentrated in the account with Other Countries along with some increase also in the account with the United Kingdom.

An improvement of \$98 million, or 44 per cent of the \$224 million decline in the current account deficit with Other Countries, covered transactions with the other OEEC countries, about another 19 per cent took place with the Rest of the Sterling Area and the remaining 37 per cent with "other countries". Even larger shares of the improvement in the visible balance were concentrated in the trade with the other OEEC countries and "other countries". But since the deficit on non-merchandise trade widened with these two areas, the current account balances did not improve as much. The resulting current account balance in 1960 with other Metropolitan OEEC countries is estimated as a deficit of \$12 million, the deficit of \$230 million on non-merchandise transactions exceeding the surplus of \$218 million on merchandise trade by that amount.

In the trade with the United States, Canadian exports declined \$150 million from \$3,189 million in 1959 to \$3,039 million in 1960, while the total values of imports from the United States were practically unchanged at \$3,727 million and \$3,718 million in the two years. Prominent among reduced shipments were uranium exports which fell over \$40 million, primary aluminum and nickel whose exports each dropped over \$25 million. Further, exports declined between \$10 million and \$20 million in each of the following commodity groups: cattle, lumber, iron ore, farm implements and farm machinery parts. Sales, on the other hand, to the United States of newsprint gained about \$15 million and those of crude petroleum about \$20 million. With respect to imports from the United States (based on incomplete returns for the full year 1960), raw cotton and iron ore each increased about \$25 million while tractors and parts declined nearly \$40 million and auto parts over \$20 million. Following a slightly higher advance from \$1,179 million to \$1,213 million in other current receipts than in payments from \$1,882 million to \$1,911 million, the deficit on non-merchandise transactions with the United States improved slightly from \$703 million to \$698 million. This imbalance in 1960 represented 51 per cent of the current account deficit, as compared with 57 per cent in the previous year. The references made before in the text to gold production, government account and migrants' funds apply in general to transactions with the United States. A considerably larger increase in the spending of American tourists in Canada than in expenditures by Canadian visitors there, together with a rise in interest and dividend receipts and a decline in dividend transfers by subsidiaries to parent companies in the United States made large positive contributions in 1960 to the non-merchandise trade balance. But on the other hand interest paid to bondholders in the United States rose substantially.

A sharp rise of \$143 million, or over 18 per cent, occurred in exports to the United Kingdom from \$781 million in 1959 to \$924 million in 1960, as compared with more modest gains of \$32 million and \$15 million in 1958 and 1959. In contrast, after advances of \$17 million and \$81 million in these two years, imports from the United Kingdom declined \$9 million in 1960 from \$618 million to \$609 million (including some prepayments). Exports of lumber rose over \$25 million, of newsprint and woodpulp \$16 million, of crude iron and semi-fabricated steel about \$35 million, and of non-ferrous metals, including primary aluminum, copper ingots, nickel and zinc \$56 million. Smaller losses covered exports of grain, canned salmon and uranium. During 1960, it appeared that imports of automobiles increased about \$20 million and purchases of aircraft engines and parts gained more moderately. Declines in imports included some fibres and textiles, electrical apparatus and aircraft frames. Except for increases in the deficit amounting together to \$18 million in the travel and freight and shipping services, the changes which occurred in other non-merchandise transactions with the United Kingdom were more minor and offsetting. In the travel account, the gain in payments was much larger than in receipts; and freight receipts declined, while payments for shipping services were slightly higher.

More than one-half of the growth of \$258 million in exports to Other Countries was attributable to the other Metropolitan OEEC countries, whose imports from Canada jumped \$148 million, or 33 per cent, from \$449 million in 1959 to \$597 million in 1960. At the same time Canadian imports

Summary of Current Transactions with the  
United States, United Kingdom and Other Countries, 1959 and 1960

and Change between the Periods

(millions of dollars)

	<u>All Countries</u>			<u>United States</u>		
	1959	1960	Change	1959	1960	Change
<u>Fourth Quarter</u>						
Merchandise exports (adjusted)	1,449	1,393	- 56	882	736	- 146
Merchandise imports (adjusted)	1,423	1,394	- 29	927	918	- 9
Balance on merchandise trade	+ 26	- 1	- 27	- 45	- 182	- 137
Other current receipts	398	396	- 2	268	263	- 5
Other current payments	719	713	- 6	510	483	- 27
Balance on non-merchandise trade	- 321	- 317	+ 4	- 242	- 220	+ 22
Current account balance	- 295	- 318	- 23	- 287	- 402	- 115
<u>Calendar Year</u>						
Merchandise exports (adjusted)	5,149	5,400	+ 251	3,189	3,039	- 150
Merchandise imports (adjusted)	5,572	5,548	- 24	3,727	3,718	- 9
Balance on merchandise trade	- 423	- 148	+ 275	- 538	- 679	- 141
Other current receipts	1,636	1,659	+ 23	1,179	1,213	+ 34
Other current payments	2,707	2,781	+ 74	1,882	1,911	+ 29
Balance on non-merchandise trade	-1,071	-1,122	- 51	- 703	- 698	+ 5
Current account balance	-1,494	-1,270	+ 224	-1,241	-1,377	- 136
	<u>United Kingdom</u>			<u>Other Countries</u>		
	1959	1960	Change	1959	1960	Change
<u>Fourth Quarter</u>						
Merchandise exports (adjusted)	227	240	+ 13	340	417	+ 77
Merchandise imports (adjusted)	164	143	- 21	332	333	+ 1
Balance on merchandise trade	+ 63	+ 97	+ 34	+ 8	+ 84	+ 76
Other current receipts	66	67	+ 1	64	66	+ 2
Other current payments	87	92	+ 5	122	138	+ 16
Balance on non-merchandise trade	- 21	- 25	- 4	- 58	- 72	- 14
Current account balance	+ 42	+ 72	+ 30	- 50	+ 12	+ 62
<u>Calendar Year</u>						
Merchandise exports (adjusted)	781	924	+ 143	1,179	1,437	+ 258
Merchandise imports (adjusted)	618	609	- 9	1,227	1,221	- 6
Balance on merchandise trade	+ 163	+ 315	+ 152	- 48	+ 216	+ 264
Other current receipts	200	203	+ 3	257	243	- 14
Other current payments	347	366	+ 19	478	504	+ 26
Balance on non-merchandise trade	- 147	- 163	- 16	- 221	- 261	- 40
Current account balance	+ 16	+ 152	+ 136	- 269	- 45	+ 224



from the other OEEC countries advanced \$15 million, or 4 per cent. Enlarged exports covered non-ferrous metals, wheat and some chemical products, while small increases in a large number of commodities more than offset a minor decline in imports of passenger cars. Most non-merchandise transactions shared in enhancing the "invisible" deficit by \$35 million. A small loss in receipts and a much larger gain in payments of interest and dividends and in the government account (the NATO infrastructure programme and other defence expenditures) together with a larger rise in payments than in receipts on travel account represented the bulk of the deterioration in the deficit from non-merchandise transactions.

The degree of amelioration in the deficit in transactions with the "other countries" was almost as favourable as that with the other OEEC countries, and the extent of improvement in the current account balance with the Rest of the Sterling Area about one-half that with the "other countries". The development in the latter group followed an increase of more than 10 per cent in exports, a smaller decline in imports and a modest rise in the deficit on non-merchandise trade. In transactions with the Rest of the Sterling Area, exports advanced nearly 20 per cent, adjusted imports less than 10 per cent and the deficit on the "invisibles" declined slightly. In 1960, exports grew \$45 million to Australia and over \$10 million to New Zealand; and increased exports of lumber, newsprint, aluminum and automobile parts to the Rest of the Sterling Area were recorded, while shipments of wheat were down. Imports of bauxite and alumina appeared to be higher in 1960 and those of raw sugar lower. The small decline in the deficit on non-merchandise trade with this group of countries resulted from a fairly pronounced reduction in the official contributions of wheat, which in part was offset by lower dividend receipts. Among the "other countries" group, exports rose \$38 million to Japan, \$12 million to Argentina and \$10 million to Mexico, while shipments to Venezuela were down \$10 million. Imports were lower about \$30 million in 1960 from Mexico, Venezuela and Netherlands Antilles taken together. Small increases in most items among the "invisibles" contributed to the modest rise in the deficit on non-merchandise transactions with the "other countries".

#### Capital movements

Canada continued to draw heavily on the physical and financial resources of the rest of the world in 1960. The deficit of \$1,270 million in the current account of the Canadian balance of payments showed that far from being able to make any net resources in real terms available to other countries, Canada absorbed resources from other countries, particularly the United States. The deficit arising from Canada's net purchases of goods and services abroad (including contributions by Canada) added to Canada's net external indebtedness.

Movements of capital for direct investment, portfolio stocks and bonds, and official loans and long-term investments, totalled about \$875 million in 1960, adequate to finance about 69 per cent of the current account deficit. In 1959 these movements totalled \$1,088 million, equivalent to 73 per cent of the deficit in that year. These proportions were smaller than in the earlier post-war years in which Canada incurred current account deficits, with the single exception of 1955, but over the post war period as a whole inflows in long-term forms have been equivalent to all but three per cent of the net current account deficit. The correlation between current account deficits and capital inflows in long-term forms was less marked through 1960 than has been the case for many years past. For the first time in the ten years of current account deficit covered by official quarterly estimates, the proportion of capital inflows in long-term forms which occurred in the first half of the year was greater than the proportion of the current account deficit incurred. About 76 per cent of the inflows in long-term forms occurred in the first half when 64 per cent of the deficit was experienced. In the final quarter of the year these capital inflows were equivalent to only 17 per cent of the deficit; 6 per cent of the inflows occurred in this period, but 25 per cent of the deficit.

Geographically, about 85 per cent of the net capital inflow in long-term forms during 1960 came from the United States. This compared with 84 per cent in 1959. (Neither of these calculations takes into account as a capital movement with the United States Canada's subscription payments in gold or United States dollars to international financial agencies, which would have the effect of reducing to 78 per cent the figure for 1959). About 7 per cent of the movement in long-term forms in 1960 originated with the United Kingdom compared with 9 per cent in 1959; direct investment inflows were higher but there were withdrawals of portfolio capital in contrast to inflows a year earlier. The share of other overseas countries was also smaller, falling to 8 per cent from 12 per cent. As in the case of the United Kingdom direct investment inflows were higher but inflows of portfolio capital fell sharply.

Capital inflows taking the form of increases in the outstanding net external long-term debt<sup>(1)</sup> of the various levels of government in Canada fell from \$461 million in 1959 to \$191 million in 1960. This group gave rise to the smallest capital inflow in five years, and their share of the total capital movement, 15 per cent, was as small as it has been in this period, falling from 31 per cent in 1959. Foreign direct and portfolio investment in Canadian concerns totalling \$755 million in 1960 was, on the other hand, moderately higher than in 1959 when it amounted to \$713 million, although it did not of course regain the very high levels of well over one billion dollars established in 1956 and 1957. The inflows represented 59 per cent of the net capital movement in 1960, compared with 48 per cent in 1959. Outflows for Canadian long-term investments abroad, excluding investments by governments, totalled \$94 million in 1960 compared with \$113 million in the previous year, while the inflow reflected in all other external liabilities, net, fell slightly to \$418 million in 1960 from \$433 million in 1959. Since the overall capital inflow was smaller, the share of the latter group of transactions rose to 33 per cent from 29 per cent.

The net movement of foreign capital to Canada for direct investment in foreign-controlled enterprises during 1960 is estimated to have totalled \$690 million. This is \$140 million higher than in 1959 and slightly over \$100 million above the largest figure recorded previously. Earlier reports in this series have outlined the difficulties in relating these movements to the financing of new capital formation in Canada. While an appreciable amount of the inflow in both 1959 and 1960 was directed to the acquisition of existing concerns and interests, present indications are that this was no larger in 1960 than in 1959. A few large transactions of this sort are important in the totals, but there are also many small concerns which have been acquired by non-residents and some significant transfers in the opposite direction. During 1960 public announcement was made of plans for a number of mergers or other important corporate changes, some of which would give rise to non-resident control of concerns previously controlled by residents of Canada. Not all of these arrangements had been consummated at the year-end, nor would all of them involve international movements of capital.

The largest part of the net inflow for direct investment, probably amounting to more than a third of the total, was directed to the petroleum and natural gas industry. This was a somewhat higher proportion than in 1959, and is of course much larger in absolute terms. Most of the funds were directed to exploration and development, and to production facilities. Some of the increase covered the acquisition of resident-owned enterprises. The financing of transportation and distribution systems for natural gas was not in relative terms an important factor.

Direct investment to mining concerns showed an even greater growth, and accounted for nearly a third of the net movement. Iron ore projects and ancillary facilities made up the largest part.

Manufacturing concerns were also important areas of direct investment capital in 1960, accounting for about one fifth of the total movement, about one third of it to manufacturers of pulp and paper and other wood products. Although the amount of inflow did not rise significantly over 1959, the proportion directed to the acquisition of existing interests was lower in the more recent year.

Among other sectors attracting direct investment capital were financial institutions, and non-residents acquired important holdings in insurance, investment and real estate companies.

While investments in many hundreds of enterprises contribute to these totals, inflows for investment in a relatively few major enterprises account for a very large part. This tendency has been rising. The eight largest elements accounted for 42 per cent of net direct investment inflows in 1958, 48 per cent in 1959, and 57 per cent in 1960. Most of the substantial increase in direct investment inflows in 1960 originated in the large transactions.

The largest part of the movement occurred in the early part of the year. The inflow in the first quarter was \$210 million and it declined successively over the subsequent quarters to \$175 million, \$175 million and \$130 million. Transfers covering the acquisition of existing assets appear also to have been concentrated in the early part of the year, and they probably accounted for the decline from the extraordinary level of the first quarter to the second. Elimination of these transactions would also indicate a more gentle decline in the other inflows over the rest of the year.

Geographically, the United States accounted for about 77 per cent of the direct investment inflows in both 1959 and 1960. In 1959 the United Kingdom supplied about 16 per cent and other overseas countries about 7 per cent. In 1960 investors in other overseas countries may have increased

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(1) Increase in holdings by non-residents of Government of Canada, provincial and municipal bonds, less net repayments on intergovernmental loans and subscriptions in gold and foreign currencies to international financial agencies.



their share very slightly. The net inflow rose over the year by about 25 per cent. Direct investment inflows from overseas countries other than the United Kingdom showed the greatest relative growth, rising by perhaps more than a third. Inflows from the United Kingdom rose by nearly a fifth, and those from the United States by about a quarter.

Preliminary estimates of the movement of capital for direct investment abroad indicate a net outflow of \$85 million in 1960, which is slightly above the figure of \$80 million recorded for 1959. Movements to the United States, to the United Kingdom, and to other overseas countries all contributed in important amounts to the total. There were outflows for investment in a diverse group of manufacturing and service undertakings.

From 1956 to 1959 portfolio security transactions were the largest medium of capital inflow for the settlement of Canada's deficit from transactions in goods and services. In 1960 inflows for direct investment in foreign-controlled enterprises in Canada re-asserted themselves as Canada's major source of foreign capital.

Transactions in stocks and bonds between Canada and other countries in 1960 gave rise to a net capital inflow of \$218 million. The total value of transactions leading to this balance was \$2.5 billion. The net inward movement in 1960 was much smaller than in the years from 1956 to 1959 when it ranged between \$610 million and \$763 million, but it was larger than in all but two of the ten preceding post-war years. The total value of transactions was also lower than in recent years, the average from 1956 to 1960 having been of the order of \$2.9 billion.

Most of the net movement in 1960 occurred in the first quarter when there were inflows of \$206 million. In the two succeeding quarters the inflows fell to \$91 million and \$6 million respectively, and in the final quarter there was an outflow of \$85 million.

The proceeds of new issues of Canadian securities sold to non-residents amounted to \$397 million, but there were offsetting retirements of \$225 million of foreign-held Canadian securities. Trade in outstanding Canadian securities resulted in a sales balance to non-residents of \$55 million, bringing the net movement from transactions in Canadian securities to \$227 million. In the opposite direction there was a net capital export of \$9 million from all transactions by Canadians in foreign securities.

Foreign savings made available to Canada through the acquisition of Canadian provincial, municipal and corporate securities in 1960 were equal to about 15 per cent of the net new supply of these securities. In 1959 non-resident acquisitions were equal to about 45 per cent of the total. The amount of net new issues by these borrowers was of the same order of magnitude in each year. Canadian investors therefore absorbed a much greater amount of the new offerings of these classes of securities than was the case in 1959. Relatively, Canadian capital supplied a greater proportion of this financing than in any year since 1955, although the actual amount was smaller than in the first three years of this period.

The overall movement of portfolio security capital in 1960 came on balance entirely from the United States. There were outflows to the United Kingdom sufficient to offset the inflows from all other overseas countries. In 1959 residents of the United States accounted for 76 per cent of the very much larger inflow, with residents of the United Kingdom supplying 5 per cent and other overseas countries 19 per cent.

The capital inflow of \$55 million produced by trade in outstanding Canadian securities was made up of \$48 million of common and preference stocks and \$7 million of bonds and debentures reflecting net sales of \$50 million of Government of Canada direct and guaranteed issues, and \$4 million of municipal issues, offset by repurchases of \$39 million of corporate issues and \$8 million of provincial issues. The total of \$201 million for 1959 was made up of \$110 million of stocks and \$91 million of bonds and debentures; net sales of outstanding Government of Canada direct and guaranteed issues were \$68 million higher, accounting for the largest part of the difference in the two years.

Canada received \$397 million from the sale of new issues of Canadian securities to non-residents in 1960. This figure was much below the totals for the four preceding years, but was exceeded only once earlier in the post-war period. The inflows were heavily concentrated in the first half of the year, particularly in the first quarter. There was a notable decline in the sale to non-residents of new provincial issues from \$334 million in 1959 to \$102 million in 1960, and a somewhat smaller decline in the sale to non-residents of new municipal issues, from \$158 million to \$122 million. Sales of new Government of Canada direct and guaranteed issues fell from \$56 million to \$31 million, and sales of new corporate bonds and stocks fell from \$159 million to \$142 million.



This four page insert may be detached and kept with the 1959 Annual Report. It is suggested that a reference to it be made against Tables XII, XIV, XV and XVI.

Supplement to  
Catalogue No.  
67 - 201

A Supplement to "THE CANADIAN BALANCE OF INTERNATIONAL PAYMENTS,  
1959, AND INTERNATIONAL INVESTMENT POSITION"

Since "The Canadian Balance of International Payments, 1959, and International Investment Position" went to press, additional statistical material has become available which brings forward and extends the data covered in this report. The material is contained in statements on the following pages.

Foreign Ownership and Control of Canadian Industry

Estimates of the book value of total investment in selected Canadian industries have now been completed for the end of 1958, and permit the calculation of ratios of foreign ownership and control at that date. As in 1956 and 1957 more than half of the increases in the book values of the manufacturing industry, the petroleum and natural gas industry, and mining and smelting, were reflected in increased non-resident ownership and control.

The ownership of Canadian manufacturing by residents fell during 1958 by one per cent to 49 per cent at the end of the year while the capital controlled by residents also fell one per cent to 43 per cent. Canadian ownership of the petroleum and natural gas industries remained relatively unchanged at 36 per cent, while control increased by one per cent to 25 per cent; Canadian ownership and control are much more important elements in natural gas distribution and marketing systems than in petroleum. Canadian ownership of the mining and smelting industry was unchanged at 44 per cent and control appears to have increased by one per cent to 40 per cent. Taking into account also railways, other utilities, merchandising, and construction, which are predominantly Canadian owned and controlled, non-resident ownership and control of the industries covered remained unchanged over the year at 34 per cent and 32 per cent respectively.

Another statement appearing overleaf gives additional industrial detail at the end of 1958. It should be emphasized that these statistics are constructed from a wide variety of sources, and some individual changes may reflect statistical short-comings arising from various accounting and reporting practices. Since the data are based partly upon consolidated financial statements, the entire investment in Canada of a corporation and its subsidiaries must normally be attributed to one activity. Thus, for example, the agricultural implements industry as shown includes enterprises also engaged in the manufacture of other heavy equipment; the proportions of capital actually engaged in the manufacture of agricultural implements only could therefore be different from the proportions shown for the group of enterprises in their entirety.

Distribution of Ownership of Net Canadian Long-Term Funded Debt, 1954 and 1959

The statement on page 4 of this Supplement provides a detailed classification of the estimated distribution of ownership of Canadian long-term funded debt by currency of payment at the end of 1954 and 1959 (net of sinking funds). Over the five year period, outstanding funded debt is estimated to have risen by 34 per cent to \$32 billion. About 14 per cent of this overall total, and about 23 per cent of the funded debt other than Government of Canada direct issues, provide for payment solely or optionally in foreign currency. Non-resident ownership rose in the five year period by 52 per cent to \$5.8 billion, accounting for 4 per cent of outstanding Government of Canada debt, 28 per cent of both provincial debt and municipal debt, 24 per cent of railway debt and 30 per cent of other corporate debt. This was 18 per cent of all funded debt or 29 per cent of all funded debt except Government of Canada direct issues.

## Foreign Ownership and Control of Canadian Industry

Industry classification	TABLE XII Non-Resident OWNERSHIP as a percentage of selected Canadian industries		TABLE XIV Non-Resident CONTROL as a percentage of selected Canadian industries	
	1957	1958	1957	1958
Percentage of total owned or controlled by all non-residents:				
Manufacturing .....	50	51	56	57
Petroleum and natural gas .....	64	64	76	75
Mining and smelting .....	56	56	61	60
Railways .....	30	29	2	2
Other utilities .....	14	14	5	5
Total of above industries and merchandising .....	34	34	32	32
Percentage of total owned or controlled by United States residents:				
Manufacturing .....	39	40	43	44
Petroleum and natural gas .....	57	58	70	69
Mining and smelting .....	46	47	52	51
Railways .....	11	10	2	2
Other utilities .....	11	12	4	4
Total of above industries and merchandising .....	26	26	27	26

TABLE XV Ownership and Control of Selected Canadian Industries, End of 1958

Company classification	Esti- mated Total Invest- ment	Investment owned in:			
		Canada	United States	United Kingdom	Other Coun- tries
millions of dollars					
Manufacturing:					
Beverages .....	435	320	99	14	2
Rubber .....	184	26	145	13	-
Textiles .....	605	470	73	60	2
Pulp and paper .....	1,700	799	760	129	12
Agricultural machinery .....	201	130	71	...	...
Automobiles and parts .....	382	83	297	1	1
Transportation equipment n.o.p. ....	275	116	69	90	-
Primary iron and steel .....	615	463	90	57	5
Electrical apparatus .....	504	139	312	36	17
Chemicals .....	993	376	444	146	27
Other .....	5,100	2,437	2,078	428	161
Sub-total .....	10,994	5,359	4,434	974	227
Petroleum and natural gas .....	4,980	1,793	2,866	134	187
Mining:					
Smelting and refining of non-ferrous native ores .....	880	397	359	68	56
Other mining .....	2,066	892	1,027	103	44
Sub-total .....	2,946	1,289	1,386	171	100
Total of above industries .....	18,920	8,441	8,686	1,279	514

IMPORTANT NOTE: The footnotes and qualifications given in the annual report are applicable to all these data. Data for some earlier years will also be revised.

TABLE XVI Estimated Book Value, Ownership and Control of Capital Employed in Selected Canadian Industries, End of 1958

billions of dollars

Industry classification	Total Capital Employed	Resident Owned Capital	Non-Resident Owned Capital
Manufacturing .....	11.0	5.4	5.6
Petroleum and natural gas .....	5.0	1.8	3.2
Other mining and smelting .....	2.9	1.3	1.7
Railways .....	4.9	3.5	1.4
Other utilities .....	8.2	7.0	1.1
Merchandising and construction .....	8.5	7.7	0.8
Total of above .....	40.5	26.7	13.8

Industry classification	United States Owned Investments	Total Canadian and External Investment in Companies Controlled Outside Canada	Total Canadian and External Investment in Companies Controlled in the United States
Manufacturing .....	4.4	6.3	4.8
Petroleum and natural gas .....	2.9	3.8	3.5
Other mining and smelting .....	1.4	1.8	1.5
Railways .....	0.5	0.1	0.1
Other utilities .....	0.9	0.4	0.3
Merchandising and construction .....	0.5	0.7	0.5
Total of above .....	10.7	13.1	10.7

Total Canadian and external capital in companies controlled in:			Percentage of capital employed owned in:				Percentage of capital employed controlled in:		
Canada	United States	Elsewhere outside Canada	Canada	United States	United Kingdom	Other Countries	Canada	United States	Elsewhere outside Canada
millions of dollars									
375	55	5	74	23	3	-	86	13	1
4	165	15	14	79	7	-	2	90	8
483	66	56	78	12	10	-	80	11	9
762	731	207	47	44	8	1	45	43	12
110	70	21	65	35	...	...	55	45	...
13	369	-	22	78	-	-	3	97	-
83	69	123	42	25	33	-	30	25	45
462	51	102	75	15	9	1	75	8	17
105	328	71	28	62	7	3	21	65	14
255	506	232	38	44	15	3	26	51	23
2,078	2,390	632	48	41	8	3	41	47	12
4,730	4,821	1,443	49	40	9	2	43	44	13
1,227	3,456	297	36	57	3	4	25	69	6
307	573	-	45	41	8	6	35	65	-
862	922	282	43	50	5	2	41	45	14
1,169	1,495	282	44	47	6	3	40	51	9
7,126	9,772	2,022	44	46	7	3	38	51	11

**IMPORTANT NOTE:** The footnotes and qualifications given in the annual report are applicable to all these data. Data for some earlier years will also be revised.



## (Millions of dollars)

Debtor and Currency	Distribution of Ownership									
	Amounts Outstanding		Canada		United States		United Kingdom		Other Countries	
	1954	1959	1954	1959	1954	1959	1954	1959	1954	1959
Government of Canada, direct and guaranteed excluding railways:										
Payable in Canadian dollars only <sup>2</sup> .....	12,640	13,554	12,284	13,068	265	291	22	29	69	166
Payable in foreign currencies only .....	392	185	97	59	242	92	49	31	4	3
Payable optionally in Canadian or foreign currencies .....	9	-	1	-	8	-	-	-	-	-
Sub-total .....	13,041	13,739	12,382	13,127	515	383	71	60	73	169
Provincial, direct and guaranteed excluding railways:										
Payable in Canadian dollars only .....	2,543	4,188	2,456	4,040	45	80	30	44	12	24
Payable in foreign currencies only .....	512	1,283	1	7	510	1,272	1	-	-	4
Payable optionally in Canadian or foreign currencies .....	388	171	22	10	359	157	7	4	-	-
Sub-total .....	3,443	5,642	2,479	4,057	914	1,509	38	48	12	28
Municipal:										
Payable in Canadian dollars only .....	1,491	2,401	1,389	2,276	72	92	26	24	4	9
Payable in foreign currencies only .....	285	750	14	1	267	742	3	6	1	1
Payable optionally in Canadian or foreign currencies .....	87	63	27	22	54	38	6	3	-	-
Sub-total .....	1,863	3,214	1,430	2,299	393	872	35	33	5	10
Railways:										
Payable in Canadian dollars only .....	895	1,576	850	1,515	30	15	7	20	8	26
Payable in foreign currencies only .....	422	420	-	4	133	143	287	271	2	2
Payable optionally in Canadian or foreign currencies .....	253	36	116	22	111	1	4	-	22	13
Sub-total .....	1,570	2,032	966	1,541	274	159	298	291	32	41
Other corporations:										
Payable in Canadian dollars only .....	3,193	5,837	2,779	5,094	249	466	142	193	23	84
Payable in foreign currencies only .....	689	1,400	9	36	664	1,328	11	13	5	23
Payable optionally in Canadian or foreign currencies .....	86	153	18	37	68	112	-	1	-	3
Sub-total .....	3,968	7,390	2,806	5,167	981 <sup>(3)</sup>	1,906 <sup>(3)</sup>	153	207	28	110
Total bonds and debentures:										
Payable in Canadian dollars only .....	20,762	27,556	19,758	25,993	661	944	227	310	116	309
Payable in foreign currencies only .....	2,300	4,038	121	107	1,816	3,577	351	321	12	33
Payable optionally in Canadian or foreign currencies .....	823	423	184	91	600	308	17	8	22	16
TOTAL .....	23,885	32,017	20,063	26,191	3,077	4,829	595	639	150	358
1. Includes bonds held by United States Life Insurance Companies (aside from business in Canada):								1954		1959
Government of Canada, direct and guaranteed excluding railways .....								144	)	
Provincial direct and guaranteed excluding railways .....								267	)	
Municipal .....								219	)	Not
Railways .....									)	
Other corporations .....								687	)	available
TOTAL .....								1,317	)	
2. Excludes treasury bills and notes .....								1,530		2,077
3. Includes Corporate bonds held by United States parent companies and affiliates:										
Payable in Canadian dollars only .....								7		28
Payable in foreign currencies only .....								142		130
Payable optionally in Canadian or foreign currencies .....								39		35
TOTAL .....								188		193

Retirements of foreign-held Canadian securities totalled \$225 million in 1960. This figure was smaller than in 1959 when larger amounts of foreign-held Government of Canada issues were paid off. Retirements of other issues were, however, larger than in 1959, as might be expected with Canada's rising amount of foreign-held debt. Retirements required by the operation of sinking funds are often satisfied through the surrender of bonds acquired in the market and consequently some of the repurchases of outstanding issues in effect also represent debt requirement.

Canadians in 1960 purchased \$8 million of outstanding foreign securities and \$20 million of new foreign securities including issues of borrowers in the United States, Israel, and other countries. Retirements of Canadian-held foreign securities in the same period totalled \$19 million including investments in the United States, Latin America, other countries, and international financial organizations.

A more extended review of international security movements in 1960 will be found in the December issue of "Sales and Purchases of Securities between Canada and Other Countries". (DBS Catalogue No. 67-002).

All the aid extended in 1960 by Canada directly to overseas governments took the form of official contributions, and there were consequently no increases in outstanding loans. Repayments of principal on earlier intergovernmental loans totalled \$32 million, including amounts from the United Kingdom, Belgium, France, and the Netherlands. The total was about \$2 million lower than in 1959 when the final payment was received on the loan to Norway. In addition to the principal repayments, there were receipts of \$32 million on account of interest in 1960; this is a part of the item in the current account covering Canada's receipts from interest and dividends.

During 1960 Canada's additional subscription to the capital stock of the International Bank for Reconstruction and Development involved a net payment of about \$3 million. About \$1 million of this was paid in United States funds, and the balance accomplished through adjustment of the Bank's holdings of Canadian dollars. (The subscription and adjustments in Canadian funds, together with the Bank's holdings of Canadian funds, are included in the item "other capital movements"). In addition to the capital subscription to the IBRD, Canada's initial participation in the recently established International Development Association involved an outlay in the fourth quarter of between \$8 million and \$9 million. Nearly \$2 million of this was paid in United States funds, and the balance in Canadian funds. The latter part of the subscription and the Canadian dollar holdings arising from it are, as in the case of the other international financial agencies, included as "other capital movements". The International Development Association is to provide assistance to less-developed areas of the world covered by the membership. Further subscriptions are to be made over a four year period.

A sharp rise occurred in Canadian dollar holdings of foreigners in the last half of 1960, when an increase of \$75 million in the fourth quarter followed one of \$45 million in the third. There were minor reductions during the first half, and the capital inflow for the year as a whole was \$115 million. This movement was the largest since 1950 and 1951. Increased holdings by residents of the United States and of overseas countries other than the United Kingdom accounted for most of it; the rise in the latter group of balances may bear some relationship to political and economic disturbances in some parts of the world. Canadian dollar holdings of foreigners have risen in each of the past three years and now total over \$600 million. These movements and balances are apart from the holdings of international financial agencies which are included elsewhere in the capital account.

Transactions by non-residents in Canadian treasury bills were one important factor increasing Canadian dollar holdings of foreigners. Over the course of 1960 non-residents purchased about \$380 million of Canadian treasury bills; this was somewhat above the total of \$369 million for the previous year when, moreover, non-residents had acquired some bills under an exchange offer. As most of the bills acquired by non-residents naturally matured or were repurchased by Canadians in the same year, the net holdings by non-residents rose by \$56 million in 1960 as against \$14 million in the previous year. Total non-resident-owned holdings at the end of the year were \$120 million. More than three-quarters were holdings of residents of the United States who held \$93 million. In contrast, at the end of 1959 residents of the United States held only \$22 million out of \$64 million total foreign holdings. (The December, 1960 issue of the monthly publication "Sales and Purchases of Securities Between Canada and Other Countries" contains a more extended description of these movements together with comment on the factor of interest arbitrage.)

Canada's official holdings of gold and foreign exchange were reduced during 1960. This reduction in Canadian assets abroad represents an import of capital amounting to \$39 million, and it followed a similar import of \$70 million in 1959 (mainly offset by Canada's gold subscription in that year to the International Monetary Fund). In 1958 Canada's official holdings of gold and foreign exchange were increased by an outflow of \$109 million. The capital inflow in 1960 occurred in the



first half of the year, and was partly offset by outflows in the latter half. Virtually all of the movement reflected a net reduction of Canada's holdings of gold and United States dollars, as official holdings of other currencies are generally limited to working balances.

In terms of United States dollars, official holdings of gold and United States funds fell from \$1,869.2 million at the end of 1959 to \$1,829.2 million at the end of 1960. The month-end figures through 1960 did not again reach the level at the beginning of the year. The closing total was, however, well above the month-end low point of \$1,740.3 million recorded for May.

Other capital movements were inwards on balance over the year, amounting to \$264 million. Although this was considerably smaller than in 1959 when it totalled \$350 million, it nevertheless is substantial in relation to most earlier years. The broad outline of the movements in 1960 is already clear and emphasizes the wide variety of elements included:

	(millions of dollars)
Net inflows of capital in miscellaneous long-term forms	23
Net borrowings abroad by instalment finance and small loan companies	43
Subscriptions by Canada in Canadian funds to international financial agencies (-)	-9
Net increase in short-term Canadian dollar holdings of international financial agencies	4
Net decrease in Canadian private and banking holdings of foreign currencies	78
Increase in net accounts and loans payable by Canadians (including balancing item representing difference between current account balance and recorded capital movements)	<u>125</u>
Total	264
(preliminary)	

On a quarterly basis these items gave rise to capital outflow of \$81 million in the first quarter, an inflow of \$158 million in the second, an outflow of \$17 million in the third, and an inflow of \$204 million in the final quarter. It may be of interest to note that there have been inflows from these transactions in the second quarter and outflows in the third in seven of the last eight years. While seasonal factors are clearly in evidence, the individual components are not yet generally obtainable on a quarterly basis with sufficient precision to facilitate research on their behaviour.

The inflow in these items in the fourth quarter was nearly as large as any on record, and in view of the behaviour of the exchange rate at this time more than usual interest attaches to the elements. Private and banking holdings of foreign currency were reduced by more than \$200 million, of which perhaps a fifth represented the return of Canadian funds placed in London earlier in the year. Canadian instalment finance and small loan companies added more than \$40 million to their outstanding foreign indebtedness. Against these inflows there appear to have been net repayments of accounts and loans payable of the order of \$50 million.

There are of course always a variety of influences which may have contributed to "other capital movements". Among those which may have had some relevance in the fourth quarter were changing short-term interest differentials, making the employment of money in Canada significantly more attractive than in the United States, both before and after provision for forward exchange protection. The corresponding differentials between Canada and the United Kingdom also changed, reducing the attraction for Canadians of the London money market. New bank instruments came into use in Canada competing for funds with other types of medium term borrowers. A heavy volume of Canadian borrowing in the form of sales to non-residents of commercial paper also began to appear. Some Canadian banking interests abroad were disposed of. The introduction of Canadian budgetary measures affected withholding taxes on income paid to non-residents and some other aspects of international investment, and there were some similar effects arising from the operation of reciprocal tax agreements; there was only a brief period before the end of the year for appraisal by those affected of the incidence of these changes. To these possible factors there may be added effects of the constantly changing pattern of Canada's trade and its financing. In the quarter, too, there was a sharp change in the external value of the



Summary of Capital Movements, 1957 to 1960

(millions of dollars)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>Change in movement 1960 from 1959</u>
Direct investment in Canada	+ 514	+ 420	+ 550	+ 690	+140
Direct investment abroad	- 68	- 48	- 80	- 85	- 5
Canadian securities:					
Trade in outstanding bonds	- 45	-	+ 91	+ 7	- 84
Trade in outstanding stocks	+ 137	+ 88	+ 110	+ 48	- 62
New issues	+ 798	+ 677	+ 707	+ 397	-310
Retirements	- 133	- 158	- 258	- 225	+ 33
Foreign securities	+ 6	+ 3	- 33	- 9	+ 24
Loans by Government of Canada:					
Drawings	-	- 34	- 1	-	+ 1
Repayments	+ 50	+ 64	+ 34	+ 32	- 2
Subscriptions in gold and U.S. dollars to international financial agencies	-	-	- 59	- 3	+ 56
Canadian dollars holdings of foreigners	- 35	+ 106	+ 13	+ 115	+102
Official holdings of gold and foreign exchange (increase, -)	+ 105	- 109	+ 70	+ 39	- 31
Other capital movements	+ 126	+ 122	+ 350	+ 264	- 86
Net capital movement financing current account deficit	+1,455	+1,131	+1,494	+1,270	-224

Canadian dollar which, reflecting the incidence of some transactions and expectations on the one hand, may have contributed to other shifts.

#### Exchange rate

The Canadian dollar continued to be a "strong" currency in the world's exchange markets during 1960, although there was at the end of the year some moderation from the very high levels of recent years. The exchange value of the United States dollar in Canada was 95.22 cents at the end of 1959. A tendency to rise was in evidence before the end of March, and this movement continued, with a pause in the latter part of April, until May 25 when the price reached 99.00 cents. By mid-year this rate was down to 98.03 cents and the trend continued until mid-August when it had declined to 96.62 cents. With the exception of this period centered about the May peak, rates were relatively stable until the last ten days of December. The price of the United States dollar in Canada then rose sharply by more than 1 1/2 cents to close the year at 99.66 cents. Factors contributing to this change probably included both uncertainty related to the introduction of the Budget and year-end transfers.

The highest rate recorded during the year was 99.81 cents on December 28, which was 0.25 cents below the high for 1955, and the lowest was 94.94 cents recorded early in March. The trading range for the year as a whole was 4.87 cents which was somewhat larger than in recent years. From 1956 to 1959 the annual trading ranges were 4.31 cents, 4.40 cents, 3.41 cents, and 3.63 cents. During the successive quarters of 1960 the corresponding trading ranges were 0.87 cents, 3.44 cents, 1.69 cents, and 2.59 cents.

The noon average price of the United States dollar in Canada was 96.97 cents in 1960, compared with 95.90 cents in 1959 and 97.06 cents in 1958. The successive quarterly averages in 1960 were 95.18 cents, 97.49 cents, 97.33 cents, and 97.92 cents.

#### Canada's International Investment Position

Canada's international investment position at the end of 1960 and various earlier years is set out in the accompanying statement of the "Canadian Balance of International Indebtedness" which includes the various types of Canada's external assets and of foreign-owned assets in Canada. As the statement shows, in addition to contractual borrowings it covers all other types of international investment and liabilities.

Foreign long-term investment in Canada is tentatively estimated to have totalled \$22.3 billion at the end of 1960, up from \$20.8 billion at the earlier year-end and \$7.1 billion at the beginning of the post-war period. Direct investments in foreign-controlled enterprises amounting to \$12.8 billion make up more than half the total, and have been growing more rapidly over the period than portfolio investments. Other liabilities to non-residents bring Canada's total external liabilities to \$26.1 billion. Canadian long-term investments abroad totalled about \$5.8 billion at the end of 1960 (about \$1.5 billion of them are directly offset by items included among other liabilities to cover the equity in them of non-residents, or short-term Canadian dollar liabilities arising from Canada's subscriptions to international financial agencies). They include \$3.8 billion of private direct and portfolio investment abroad, and \$2.0 billion of Government of Canada loans and investments. To their total must be added other short-term assets abroad including Canada's official holdings of gold and foreign exchange, private and banking holdings of foreign funds, and accounts receivable, bringing gross assets to \$9.1 billion.

Canada's net international indebtedness at the end of 1960 is accordingly estimated to have been \$17.0 billion, compared with \$15.5 billion a year earlier and \$3.8 billion eleven years ago. Contributing to the increase of \$1.5 billion in 1960 was the financing of Canada's net current account deficit of \$1.3 billion as well as the net balance of earnings accruing but not paid on foreign investments in Canada less those on Canadian investments abroad. Canada's external assets also rose in 1960 because of the higher exchange value of foreign currencies in terms of Canadian funds.

More detailed statistics of Canada's international investment position will be found in annual reports on "The Canadian Balance of Payments and International Investment Position" (DBS Catalogue No. 67-201).

The Canadian Balance of International Indebtedness

(billions of dollars)

	<u>1945</u>	<u>1949</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959P</u>	<u>1960P</u>
<u>Canadian Liabilities</u>								
Direct investments .....	2.7	3.6	7.7	8.9	10.1	10.9	11.8	12.8
Government and municipal bonds .....	1.7	1.8	1.9	2.1	2.3	2.6	3.1	3.3
Other portfolio investments .....	2.4	2.3	3.1	3.5	3.9	4.1	4.4	4.6
Income accumulating investment funds .....	-	-	0.2	0.2	0.3	0.3	0.3	0.3
Miscellaneous investments .....	0.3	0.3	0.6	0.8	0.9	1.1	1.3	1.3
Foreign long-term investments in Canada .	7.1	8.0	13.5	15.6	17.5	19.0	20.8	22.3
Equity of non-residents in Canadian assets abroad .....	0.2	0.3	0.7	0.8	0.8	0.9	1.1	1.1
Canadian dollar holdings of non-residents .	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6
Canadian short-term assets of international financial agencies .....	-	0.3	0.2	0.2	0.2	0.2	0.4	0.4
Short-term commercial payables .....	0.4	0.4	0.5	0.7	1.0	1.2	1.6	1.7
Gross liabilities .....	8.0	9.3	15.3	17.7	19.9	21.8	24.4	26.1
<u>Canadian Assets</u>								
Direct investments .....	0.7	0.9	1.8	1.9	2.1	2.2	2.3	2.6
Portfolio investments .....	0.6	0.6	1.0	1.0	1.1	1.1	1.1	1.2
Government of Canada loans and advances ...	0.7	2.0	1.6	1.6	1.5	1.5	1.5	1.4
Government of Canada subscriptions to international financial agencies .....	-	0.4	0.4	0.4	0.4	0.4	0.6	0.6
Canadian long-term investments abroad ...	2.0	4.0	4.7	4.8	5.0	5.1	5.5	5.8
Government of Canada holdings of gold and foreign exchange .....	1.7	1.2	1.9	1.9	1.8	1.9	1.8	1.8
Bank balances and other short-term funds abroad .....	0.1	0.1	0.3	0.6	0.9	1.0	1.0	1.0
Short-term commercial receivables .....	0.1	0.2	0.3	0.4	0.4	0.5	0.5	0.4
Gross assets .....	4.0	5.5	7.4	7.7	8.1	8.4	8.8	9.1
<u>Canadian Net International Indebtedness</u>								
Net liabilities .....	4.0	3.8	7.9	10.0	11.8	13.4	15.5	17.0

Note: As figures are rounded, totals do not necessarily equal the sum of their component parts.

P Preliminary



QUARTERLY ESTIMATES OF THE CANADIAN

Note: Data for 1960 are preliminary and

		1958	1959		
		IV	I	II	III
<b>A</b>	<b>Current Receipts</b>				
1	Merchandise exports (adjusted) .....	1,307	1,060	1,354	1,286
3	Gold production available for export .....	38	37	41	33
4	Travel expenditures .....	55	32	85	213
5	Interest and dividends .....	70	30	43	40
6	Freight and shipping .....	103	93	112	105
7	Inheritances and immigrants' funds .....	26	18	34	33
11	All other current receipts .....	101	92	94	103
12	<b>Total Current Receipts</b> .....	<b>1,700</b>	<b>1,362</b>	<b>1,763</b>	<b>1,813</b>
<b>B</b>	<b>Current Payments</b>				
1	Merchandise imports (adjusted) .....	1,349	1,218	1,551	1,380
4	Travel expenditures .....	111	117	144	216
5	Interest and dividends .....	199	141	152	150
6	Freight and shipping .....	124	99	133	149
7	Inheritances and emigrants' funds .....	41	31	39	47
9	Official contributions .....	11	9	21	22
11	All other current payments .....	166	169	174	175
12	<b>Total Current Payments</b> .....	<b>2,001</b>	<b>1,784</b>	<b>2,214</b>	<b>2,139</b>
	Balance on Merchandise Trade .....	- 42	- 158	- 197	- 94
	Balance on Other Transactions, excluding B 9 .....	- 248	- 255	- 233	- 210
	Official Contributions .....	- 11	- 9	- 21	- 22
<b>C</b>	<b>Current Account Balance</b> .....	<b>- 301</b>	<b>- 422</b>	<b>- 451</b>	<b>- 326</b>
<b>D</b>	<b>Capital Account</b>				
	Direct Investment				
1	Direct investment in Canada .....	+ 130	+ 101	+ 181	+ 85
2	Direct investment abroad .....	- 11	- 25	- 13	- 24
	Canadian Securities				
3a	Trade in outstanding bonds and debentures .....	+ 21	+ 33	+ 15	+ 32
3b	Trade in outstanding common and preference stocks .....	+ 33	+ 32	+ 33	+ 26
4	New issues .....	+ 101	+ 180	+ 117	+ 213
5	Retirements .....	- 51	- 42	- 84	- 61
	Foreign Securities				
6	Trade in outstanding issues .....	+ 7	- 5	- 12	- 7
7	New issues .....	- 4	- 3	- 2	- 1
8	Retirements .....	+ 2	+ 3	+ 2	+ 3
	Loans by Government of Canada				
9	Drawings .....	- 10	- 1	-	-
10,11	Repayments .....	+ 33	-	+ 9	-
13	Subscriptions in gold and U.S. dollars to international financial agencies .....	-	-	-	-
14	Change in Canadian dollar holdings of foreigners .....	- 9	- 12	+ 47	+ 22
16	Change in official holdings of gold and foreign exchange (increase, minus) .....	- 50	+ 49	- 43	- 3
17	Other capital movements .....	+ 109	+ 112	+ 201	+ 41
<b>E</b>	<b>Net Capital Movement</b> .....	<b>+ 301</b>	<b>+ 422</b>	<b>+ 451</b>	<b>+ 326</b>

NOTES: Mutual Aid to NATO countries is not included in either current receipts or current payments.

A 1) Merchandise trade statistics are adjusted for use in this statement. Details of these adjustments are shown in the annual reports on B 1) "The Canadian Balance of International Payments".

A 11) This item includes government transactions n.o.p., personal and institutional remittances, miscellaneous income, insurance trans-  
B 11) actions, and business services.

# BALANCE OF INTERNATIONAL PAYMENTS

data for 1959 are subject to revision.

1959					1 9 6 0				Annual Totals					
IV	I	II	III	IV	1957	1958	1959	1960						
(millions of dollars)														
1,449	1,283	1,323	1,401	1,393	4,894	4,887	5,149	5,400	A					
37	44	35	42	40	147	160	148	161	1					
61	36	91	224	66	363	349	391	417	3					
70	35	37	36	67	154	168	183	175	4					
110	94	107	111	103	445	401	420	415	5					
24	18	29	31	24	124	97	109	102	6					
96	90	99	104	96	388	375	385	389	7					
1,847	1,600	1,721	1,949	1,789	6,515	6,437	6,785	7,059	11					
1,423	1,327	1,510	1,317	1,394	5,488	5,066	5,572	5,548	12					
121	112	168	219	133	525	542	598	632	B					
214	147	161	163	184	589	612	657	655	1					
144	111	137	139	139	515	460	525	526	4					
47	38	43	50	50	157	145	164	181	5					
19	10	9	16	23	40	53	71	58	6					
174	183	179	183	184	656	690	692	729	7					
2,142	1,928	2,207	2,087	2,107	7,970	7,568	8,279	8,329	9					
+ 26	- 44	- 187	+ 84	- 1	- 594	- 179	- 423	- 148	11					
- 302	- 274	- 290	- 206	- 294	- 821	- 899	-1,000	-1,064	12					
- 19	- 10	- 9	- 16	- 23	- 40	- 53	- 71	- 58						
- 295	- 328	- 486	- 138	- 318	-1,455	-1,131	-1,494	-1,270	C					
										D				
+ 183	+ 210	+ 175	+ 175	+ 130	+ 514	+ 420	+ 550	+ 690	1					
- 18	- 15	- 25	- 30	- 15	- 68	- 48	- 80	- 85	2					
+ 11	+ 20	+ 16	- 18	- 11	- 45	-	+ 91	+ 7	3a					
+ 19	+ 13	+ 24	+ 9	+ 2	+ 137	+ 88	+ 110	+ 48	3b					
+ 197	+ 204	+ 127	+ 29	+ 37	+ 798	+ 677	+ 707	+ 397	4					
- 71	- 44	- 73	- 24	- 84	- 133	- 158	- 258	- 225	5					
- 8	+ 10	- 2	+ 5	- 21	+ 24	+ 13	- 32	- 8	6					
- 7	- 3	- 4	- 3	- 10	- 24	- 17	- 13	- 20	7					
+ 4	+ 6	+ 3	+ 8	+ 2	+ 6	+ 7	+ 12	+ 19	8					
-	-	-	-	-	-	- 34	- 1	-	9					
+ 25	-	+ 7	-	+ 25	+ 50	+ 64	+ 34	+ 32	10,11					
- 59	-	-	- 1	- 2	-	-	- 59	- 3	13					
- 44	- 3	- 2	+ 45	+ 75	- 35	+ 106	+ 13	+ 115	14					
+ 67	+ 11	+ 82	- 40	- 14	+ 105	- 109	+ 70	+ 39	16					
- 4	- 81	+ 158	- 17	+ 204	+ 126	+ 122	+ 350	+ 264	17					
+ 295	+ 328	+ 486	+ 138	+ 318	+1,455	+1,131	+1,494	+1,270	E					

## NOTES:

D A minus sign indicates an outflow of capital from Canada.

D1,2 Exclusive of undistributed profits.

D17 This item includes mainly short-term capital movements in the form of changes in international open account commercial indebtedness, private and chartered bank holdings of exchange, and loans between private unrelated parties. It also includes the balancing item representing unrecorded capital movements and errors and omissions throughout the accounts.















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